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MARKET FORUS

MF in Brazii Scheme to restore confidence actually undermines it Martin Wolf, Page 12



Nato expansion Why weapons makers are circling eastern Europe



Movie industry meeting Fear of roving in Las Vegas

Factory automation Simulation software cuts development time Page 10

**EU and US** 

make first

to resolve

moves

WORLD NEWS

### French police round up Basque terror suspects

French police yesterday arrested the alleged head of the military wing of the Basque separatist movement Eta and five other members. The most dramatic action taken against the group since last September's ceasefire In Spain came as Spanish prime minister José Maria Aznar visited Paris. Europe, Page 2

Helbrooke to press Milosevic Veteran US negotiator Richard Holbrooke will today urge Slobodan Milosevic, the Yugoslav president, to give up his hardline position before Kosovo peace talks resume on Monday. Europe, Page 2

Solana suggests aid for Balkans Nato secretary general Javier Solana wants the west to offer the Balkans political and economic benefits as well as military security. Nato, Page 3; Editorial Comment, Page 13

"Mr Yen" set to move on Eisuke Sakakibara, known as "Mr Yen" for his reputed influence over the foreign exchange markets, is expected to leave his post as Japan's vice-minister of finance for international affairs this summer. Page 14

Kinner Rouge chief charged Cambodia laid charges against Khmer Rouge chief Ta Mok, making him the first member of the group set to answer directly for the deaths of some 1.7m of his countrymen.

French blood trial ends A French court acquitted former prime minister Laurent Fabius and one of his ex-ministers in an Aids-related case involving tainted blood. Europe, Page 2

Bomb blast hits German show A bomb damaged a World War Two exhibition in the German city of Saarbrücken that has angered far-right groups with its claim that ordinary German soldiers took part in Nazi crimes.

india-Pakistan deal close India and Pakistan are close to an agreement that would mark big improvement in their relations. Only details are said to need settling before they agree cross-border electricity deal. Asia, Page 6

trantan president visits Italy Iranian president Mohammad Khatami began a state visit to Italy, seen as opening a new epoch in relations between the Islamic state and the west. The smilling face of Iran, Page 13

Ecuador crisis deepens Banks were shut for the second day running in Ecuador and labour unions called a general strike, Americas, Page 5

UK chancellor cuts taxes The UK government slashed taxes to the lowest levels in a generation as finance minister Gordon Brown unveiled what he called "a Budget for Britain to succeed in the new economy and lead in the new century.

British economy, Page 8 Sartic tarmers on the march Spanish garlic farmers plan to demand European Union action to block rising imports of Chinese garlic. Spain is Europe's leading gartic producer.

BUSINESS NEWS

### Telecom Italia may grant new voting rights in bid battle

Telecom Italia is considering enfranchising its non-voting savings shareholders as part of its defence against Olivetti's €53bn (\$57bn) hostile bid. The move could make Telecom Italia a much harder target for Olivetti to swallow. Companies and markets, Page 15; Lex, Page 14; Analysis, Page 16

Ahold, Dutch supermarkets group, built on its US presence with a \$1.75bn agreement to buy Pathmark Stores, which runs 132 outlets around New York. Companies and markets, Page 15

Endesa, Spain's leading power group, will have a second opportunity later this month to gain outright control of Enersis of Chile, its main investment target in Latin America. International companies, Page 16

A single stock market to trade the shares of Europe's top 300 companies moved closer when the London and Frankfurt stock exchanges unveiled plans to har monise share trading. Compa-nies and markets, Page 15

Fiat, the Italian motor manufacturer, said it would soon issue a €1bn five-year loan to take advantage of favourable market conditions. International companies, Page 16

De Beers, South African diamond group announced a halving of its total net profit last year to \$617m from \$1.23bn in 1997. International companies, Page 17

Microsoft is to announce a partnership with China Telecom and the Chinese government in a project linking more than 40 govemment ministries to the internet. Asia news, Page 6

Andersen Consulting shrugged off any effects of its separation from sister firm Arthur Andersen with a 25 per cent surge in 1998 global revenues to \$8.3bn. International companies, Page 17

Germany's main energy utilities with the government on setting a timetable for the closure of the country's nuclear power stations. European news, Page 2

Eucci president Domenico De Sole has agreed to reopen negotiations with French luxury goods group LVMH in a bid to resolve their legal battle. International

companies, Page 17 British American Tobacco, which next week publishes details of its proposed £5.28bn (\$8.5bn) takeover of Rothmans International, said its underlying performance was positive in spite of a 16 per cent fall in profits. Companies and markets, Page 15; Zurich adds charge, Page 17

Roche chairman Fritz Gerber plans to step down in 2001 and hand over the Swiss group's chairmanship to chief executive Franz Humer. International companies, Page 16

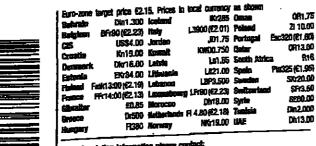
**World Equity Markets** The letest trends and data from more

than 50 national markets at a glance

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BRITAIN, SWEDEN, DENMARK AND ITALY THREATEN TO FORCE THROUGH LIBERALISATION

# Ultimatum to

# Brussels on milk reform

By Michael Smith in Brussels

Four European Union countries yesterday threatened to force to its reform.

The warning came as EU farm ministers, meeting in Brussels, criticised proposals by Germany that would dilute a European Commission blueprint for wideranging changes to the common agricultural policy.
Diplomats said chances were

rising for a deal this week and it was likely to be closer to the commission's proposals than those of the German government. The commission wants to cut guaranteed prices for beef, cereals and milk by 30, 20 and 15 per cent respectively to enable the to 2006. Some countries could EU to enlarge eastwards and

increase exports.

in New York

Last week Germany shocked fellow governments by suggesting the cuts be limited to 20 per cent, 10 per cent and nil to save money. Price cuts are expensive because the EU is committed to paying farmers compensation for them. Germany said plans to lift production-limiting milk quotas should be shelved.

RJR Nabisco stunned analysts

yesterday by selling its inter-

\$8hn to Japan Tobacco. The move

its food and US tobacco busi-

nesses, which some had thought

among its brands, beaded off

shareholder pressure for a

minister, said vesterday Britain. Sweden, Denmark and Italy were not prepared to accept the status quo on milk and, in the absence through full liberalisation of the of reform, would block a continuunion's milk market next year ation of current quota and price unless other governments agreed arrangements, which end next April.

"It is not my preferred option," said Mr Brown. "My over-riding objective is a workable reform. But I am not willing to vote for the continuation of quotas if milk remains unreformed." The governments of Sweden, Denmark and Italy agreed, he said.

The production-limiting milk quotas regime was introduced in 1984 and has remained unchanged since.

Diplomats said yesterday that one option was to delay completion of milk reforms by two years agree a lower price cut than the commission has suggested on beef - with 20 per cent one possibility - although most wanted to stick to 20 per cent on cereals. Germany, in its role as EU

president, was yesterday talking with the commission on a compromise to present to farm ministers on CAP reform today. Officials said the compromise would draw on suggestions from all Nick Brown, UK agriculture countries including its own.

more for RJR International than

analysts had thought it might

debt, is thought to have trumped

Spain. Philip Morris said it exam-

ined the business "thoroughly".

As well as businesses spanning

Asia and Eastern Europe, Japan

RJR Nabisco sells global tobacco arm

ence, is paying about 30 per cent benchmark could be used to up

paves the way for a separation of bids from Philip Morris of the US. \$74 to \$291; in afternoon trading. "fraudulent conveyance" claims



German agriculture minister Karl-Heinz Funke, right, talks to European farm

Several ministers said vesterday that Bonn's dilution proposals - made in the name of Germany's farm ministry and not the presidency - were unaccept-

Loyola de Palacio, Spanish agriculture minister, said she could not agree to the German proposals. "We need to do a proper reform," she said. Joe Walsh, Irish farm minister, said the German paper did not form the basis for a compromise.

ratings across the sector."

Industries paid for Rothmans.

Seita of France and Tabacalera of Analysts said the market had against RJR Nabisco could pre-

previously placed a negative val-

uation on its tobacco assets, and

feared a break-up was impossible.

because of the threat of smoking-

in RJ Reynolds Tobacco, the

domestic cigarettes business, will

The tax-free spin-off of shares

related litigation.

France's Jean Glavany has welcomed Germany's proposals, having consistently argued that the commission's proposals are too radical and are unnecessary.

Yesterday Mr Glavany adopted a more conciliatory tone, suggesting a deal could be achieved by the end of the week.

Asked if delaying milk reform could be part of the deal, he said: "If we really want to make a mistake, the later the

### banana war By Guy de Jonquières in London and Peter Norman in Strasbourg The US and the European Union appeared to be edging towards an attempt to settle their conflict over trade in bananas last night that would avert a showdown in the World Trade Organisation. A senior EU official said that the European Commission planned a high-level diplomatic

approach to the US in the next 48 hours to determine whether it was "in the market for a deal". He said Brussels believed the dispute could be settled before a WTO panel ruled on it later this month or early next, provided President Bill Clinton's administration was ready to sell a deal to

Sir Leon Brittan, trade commissioner, told the European parliament in Strasbourg that the Commission was urgently seeking a solution and had begun informal exploratory talks with Washington. Rita Hayes, US ambassador, said in Geneva that the talks had yielded some progress.

Robert Mallett, deputy US commerce secretary, added to hopes of a breakthrough. He said in Rome there was a "window of opportunity" for negotiating a solution but it was up to the EU to make an acceptable proposal.

The conflict was brought to a head last week when the US began implementing a threat to impose sanctions on more than \$500m (€459) of European exports. It said the EU had not complied with a 1997 WTO ruling against its banana regime which favours African Caribbean and Pacific (ACP) imports.

a separate New York Stock Although the regime has been Japan Tobacco is paying The separation will not, howmodified, Washington says it still 15 times operating cash flow, ever, insulate Nabisco from discriminates against US distrib-Its offer, which includes taking almost twice the multiple BAT future tobacco litigation against utors of Latin American fruit. the parent company - analysts The EU says the US sanctions are Shares in RJR Nabisco were up bad feared that the threat of

EU officials said they and the US had gone a long way towards identifying the basis for a possible settlement when Peter Scher. US special trade ambassador, visited Brussels 10 days ago.

tive, said the food and tobacco businesses would "best be able to "The talks clarified what the US might need, and we made clear how far we might be able to

eral proposals but the Commis-

sion had appeared to resist them.

achieve their full potential under move," an EU official said. The group would also reap US officials were less positive, saylog Mr Scher had made sev-

Lex. Page 14 BAT still upbeat, Page 15

vent a break-up of the group.

Steven Goldstone, RJR Nahis-

co's chairman and chief execu-

separate ownership structures".

"substantial" cost savings.

Exchange listing.

### off shares in the domestic national rights to Camel, Winston and Salem cigarettes. tobacco business to shareholders. leave RJR Nabisco as a holding Japan Tobacco, which controls Nyren Scott Malden of Credit company for its 80.6 per cent stake in Nabisco Holdings, its four-fifths of its domestic market Suisse First Boston said: "This but has a limited overseas presprice is amazing. This valuation food division, which already has

Sony restructuring

plan lifts shares 9%

national tobacco business for on \$200m of RJR International's

RJR Nabisco, which has Camel but was constrained by tax and

break-up by saying it would spin Tobacco will take the inter-

cigarettes and Oreo cookies antitrust problems.

By Michiyo Nakamoto in Tokyo

Shares of Sony jumped 9 per cent yesterday after the leading electronics and entertainment group unveiled an aggressive restruct- consolidate and assume greater uring plan that would see the control over those units that are loss of 17,000 jobs, 10 per cent of it worldwide workforce, and the As part of that move, Sony closure of 15 of its 70 factories.

ven and product price erosion, on internet opportunities. It is part of a far-reaching re-organisation aimed at ensuring survival in an increasingly competitive and fast-moving market.

"This is not a mere re-organisation. It is the only way for the Sony group to remain a young and active group in the 21st century," said Norio Ohga, chairman and chief executive.

Nobuyuki Idei, president, said: "Over the next three years, Sony will invest aggressively so that our core business, can evolve to best meet the needs of a network- but part of this group. centric world," but added "We want to look at those business areas that we don't need."

The electronics group, which provides about 60 per cent of Lynch in Tokyo. total revenues, will remain the biggest revenue earner and one Japan wakes up, Page 17

of the group's three main busi-ness pillars, together with entertainment and insurance and finance businesses. But the reorganisation will enable Sony to

As part of that move, Sony is taking three of its listed subsid-The plan is aimed at refocusing iaries - Sony Music Entertain-Sony's traditional electronics ment (Japan), Sony Chemicals businesses, which have been suf-fering from the strength of the back into the group as whollyowned subsidiaries. In the fastmoving age of the internet. "speed is very important", said Mr Idel Within the electronics group.

the existing operations will be consolidated into three segments focused on networks - the home network company, the personal IT network company and the core technology and network com-

Sony Computer Entertainment - which provided more than a third of Sony's operating profits our electronics business, which is in the nine months to December will no longer be independent

"Sony's short-term problems have not disappeared, but its growth potential has increased," said Hitoshi Kuriyama at Merrill

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EUROPEAN PARLIAMENT

joined the EU in the coming decade.

**NEWS DIGEST** 

UK under new pressure

over EU budget rebate

Britain yesterday came under fresh political pressure to

give up its European Union budget rebate, when the Euro-

pean Parliament's budget committee advised MEPs it should be phased out by the time new member countries

A committee report, drawn up by Jutta Haug, a German

Social Democrat, said the rebate was agreed at a time when agricultural spending accounted for more that 70 per

cent today.

MEPs will vote on the proposal tomorrow. However, the

akened by its recommendation that 50 per cent of the

cent of the EU budget compared with less than 50 per

parliament only has a consultative role on budgetary

issues and the impact of the committee report may be

EU's common agricultural policy should be "co-financed"

by national budgets. That would leave national govern-

ment's footing 50 per cent of the farm bill and undermine the UK's case for a substantial rebate.

In recent days, the German presidency of the EU has

because of French objections. Peter Norman, Strasbourg

conceded that co-financing is politically unworkable

and Tom Burns in Madrid

French police yesterday rounded up the suspected head of the military wing of Eta, the Basque separatist movement, along with five other members. in the most dramatic action taken against the group since a ceasefire came into effect in Spain last year.

The move coincided with a visit to the French capital by José Maria Aznar, the Spanish prime minister. It also underscored France's determination to help the Spanish authorities prevent Eta reorganising its structures during the ceasefire that began last September.

The alleged head of Eta's military arm. Javier Arizeuren-Ruiz, "Kantauri", was detained along with three others in an hotel in the 11th district of Paris. Two more Eta members were picked up in a flat in the 15th district, which police said was being used as a logistical base. All six were armed, but the antiterrorist police involved in the operation reported no shots being exchanged.



Lionel Jospin, (right) France's prime minister, meets his Spanish counterpart José María Aznar in Paris yesterday. French police yes her Arizeuran-Ruiz (far right), the suspected head of the military wing of the Basque separatist group Eta

KOSOVO CONFLICT YUGOSLAV PRESIDENT UNDER PRESSURE OVER PEACE DEAL

were yesterday expecting Spain to make a formal extradition request for the six arrested persons, five The round-up was pre-

have expressed to Jean-Pierre Chevènement, his cerns of Spanish intelligence

and earlier arrests.

Two weeks ago, the sepaceded by a visit last Friday that Eta was taking advan-fence and to "act in order to believed to have been used

French judicial authorities to Paris by the Spanish inte- tage of the ceasefire to maintain necessary provirior minister, Jaime Mayor rebuild its military organisa- sions". French and Spanish Oreja. He is understood to tion, damaged by infiltration intelligence have recently monitored a number of car robberies in France that French counterpart, the con- ratist group had said it have been carried out by Eta reserved the right to self-de- activists. The vehicles were

operations, raising fears that the separatists were preparing some action.

Among those arrested was understood to be a member of Eta's so-called "Donosti" commando unit, active in bloody terrorists actions in

the Basque country.
Eta's military wing has
consistently used France as a safe haven for its personnel. However, close Franco-Spanish security co-operation has made it increasingly difficult to operate undetected on French territory. Some 60 Eta members are serving sentences in French jails, and the justice ministry has declined to move them to prisons close to the Spanish border.

The peace process in the Spanish Basque country is being closely watched by the French, as it is expected to have a significant political and economic impact on their side of the border. Already there have been calls to set up a new administrative département for the French Basque country. carved out of the present

**GERMAN CITIZENSHIP REFORMS** 

### Deal agreed on outline bill

Otto Schily, Germany's intenor minister, has agreed with the opposition Free Democrats on the outline of a bill modernising German citizenship rules, a senior parliamentarian said yesterday.

Chancellor Gerhard Schröder was forced to backtrack on his citizenship reform plans and seek a legislative compromise after a state election defeat cost his center-left government its majority in the upper house of parliament,

where the states are represented The apparent accord between Mr Schröder's Social Democrats and the center-right Free Democrats increased pressure on the Greens, the junior government partner, who are holding out for a more ambitious overhaul of the

1913 citizenship law. Rainer Brüderle, a Free Democrat parliamentarian negotiating with Mr Schily, said both had agreed that the new-draft should allow dual nationality for children at birth but require them to choose one as young adults.

Annelie Buntenbach of the Greens said that model was "very difficult". Mr Schröder's cabinet is scheduled to approve the bill next week. The government had wanted to make dual citizenship the rule rather than the exception in a bid to integrate more of Germany's 7.3m foreigners, about a quarter of them Turks. AP, Bonn

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### TURKISH ELECTIONS

### **Ecevit vows to fight delay**

Bülent Ecevit, Turkish prime minister, said yesterday he would fight attempts to postpone national parliamentary elections planned for April, arguing any delay would bring chaos. Partiament will hold a special session on Saturday at the behest of 116 deputies dubbed the "disgruntled ones" by the media. Many have been struck from party lists by powerful party leaders or put so far down they cannot be re-elected.

Mr Ecevit said their petition amounted to a "civilian coup attempt". His words carried a particular polgnancy in a eral and the economy [would] be pitched into chaos," he said. "We shall do all in our power to reverse this attempt

Arithmetic militates against the disgruntled ones. They may not get the 184 deputies they need for a quorum and are most unlikely to gain the majority necessary to put off the polls. Reuters, Ankara

### **GENERAL KIDNAPPED**

### Chechnya challenge for Yeltsin

Boris Yeltsin, the Russian president, yesterday struggled to deal with a fresh challenge to his authority, the kidnapping of a Russian general in the breakaway region of Chechrya. Major-General Gennady Shpigun, the Interior Ministry's representative in Chechnya, was abducted last Friday by gunmen who leapt out of the cargo bay of his Moscowbound aircraft at an airport in Grozny, the Chechen capital: "This is a direct challenge," Vadim Gustov, the deputy premier said. "What would happen if they seized a general in America or any other country?" Mr Yeltsin was scheduled to see Mr Stepashin yesterday to discuss the kidnapping. Sergei Stepashin, interior minister, had set a harsh tone in dealings with Chechnya on Monday, saying Moscow's patience was running out and it might impose sanctions on Chechnya or attack rebel bases. In Grozny, the spokesman for Asian Maskhadov, the Chechen President made it clear he was unhappy and that there was anger on both sides. Reuters, Moscow

### FINNISH AIR TRAFFIC CONTROLLERS

### Strikers to end stoppage

Finnish air traffic controllers have agreed to end a fiveweek strike that has crippled the country's domestic airline network and disrupted international services following a revised pay offer from Ilmailulaitos, the civil aviation authority.

Finland's 250 controllers voted to accept a 13 per centpay rise over three years, even though they had been seeking a 26 per cent increase and benefits including company cars. The strike had threatened to overshadow the last two weeks of campaigning before Finland's March 21 general election, in which the ruling coalition is urging continued wage moderation. It also prompted warnings from Finnair, the country's flag carrier, that it was losing FM 55m (€9.25m, \$10.07m) a week because of the disruption. Ilmailulaitos, which originally offered the controllers a 12 per cent rise, said the dispute had been resolved shortly before the second two-day shutdown of Helsinki's Vantaa airport. Some politicians have urged the government to introduce legislation following the election compelling specialist workers, such as air traffic controllers, to take part in binding industrial arbitration in the future.

Tim Burt, Stockholm

### **FARM AGENCY CORRUPTION PROBE**

### Polish minister urged to quit

Poland's agriculture minister came under renewed pressure to resign yesterday after a newspaper said a state auditors' report had linked an agency he had headed to financial Irregularities.
The daily Gazeta Wyborcza called Jacek Janiszewski to

step down on the basis of what it said were leaks from the report. The supreme auditing chamber confirmed it had investigated the Farm Property Agency in Szczecin prov-ince, which Mr Janiszewski had headed between 1992-1995. But it declined to give details, saying its report had not yet been finalised. Warsaw, Reuters

### Romania pressed on debt refinance

By Arkady Ostrovsky in London and Joe Cook in Bucharest

The International Monetary Fund is stepping up pressure on Romania to seek refinancing of \$863m of its external debt which falls due later this year, a move which could result in the country's default on its international

Emmanuel Zervoudakis. head of the EMF mission for Romania, said the release of the IMF financing package, which could be about \$450m this year, needed to stabilise its economy, depended on Romania's ability to renegotiate at least 80 per cent of its international bond payments falling due in May

Mr Zervoudakis said the nal bond underwriters.

"We should not be faced By Ralph Atkins in Bonn with a situation where the money from the IMF would be used to repay private creditors," he said.

However, bankers said international bonds could not be rolled over or refinanced in the same way as bank loans, because they

were tradeable instruments. "The IMF seems to assume that banks keep those bonds on their books, but they have been sold to investors a long time ago and the burden will be on the bond Oskar Lafontaine, finance holder and not on their underwriters," said Juan Del Azar, managing director for emerging markets trading at Merrill Lynch.

Andrew Kenningham, emerging markets analyst at Merrill Lynch, said the only way to restructure an international bond was to default in order to reschedule payments to bond holders. Adrian Vasilescu, a direc-

tor of the National Bank of Romania, said: "Romania has always paid its debts and will continue to do so. As a last resort, our strategy is to roll over external debt. not to postpone it.'

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Veteran US negotiator Richard Holbrooke, following where several European foreign ministers have failed before him, will attempt today to persuade Slobodan Milosevic, the Yugoslav president, to back down from his hardline position before Kosovo peace talks resume in Paris next Monday.

The US State Department said Mr Holbrooke would press Belgrade to accept in full the agreement drafted during 17 days of talks in France last month. The deal provides for broad autonomy

as well as 28,000 Nato troops to keep the peace. Mr Milosevic has rejected

both elements and over the past month has sent away the foreign ministers of Britain, Norway and Germany empty-handed. European diplomats were concerned that Mr Holbrooke had been given leeway by Madeleine Albright. US secretary of state, to cut a deal in Belgrade that they too will be forced to accept.

But they also recognised that Mr Holbrooke who negotiated an end to the Bosnian civil war, was the only man Mr Milosevic would for the Serbian province and deal with. On his last trip to its ethnic Albanian majority, Belgrade, Chris Hill, the pean governments over day between Serblan secu-

chief US mediator at last using air strikes to force a month's talks did not even get an audience.

Holbrooke to press Milosevic

"The Yugoslav side has been tough and uncompro- ated 300,000 refugees and sent thousands of extra mising. Meanwhile, there is fighting which concerns us greatly in parts of Kosovo." Mr Holbrooke said on arrival. He made no direct reference to Washington's repeated threats of Nato air strikes should Belgrade block a peace dea! but said he would warn Mr Milosevic diplomat commented. Also said Mr Hill had received a of the US "view of the consequences" if the situation did not improve dramatically. Mr Holbrocke's mild choice of words reflects seri- as ambassador to the UN.

ous divisions among Euro-

political settlement. Last October, after a gov-

ernment offensive that crekilled many civilians, Nato's troops into Kosovo in breach threat carried credibility. of the October agreement. allowing Mr Holbrooke to persuade Mr Milosevic to adhere to a ceasefire, reduce his forces in Kosovo and accept 2,000 unarmed moni- (KLA), which has also tors. "That credibility is no refused to sign the agreelonger there," one European at stake is the credibility of Mr Holbrooke himself as he struggles to win political support for his nomination Renewed fighting vester-

Haider

closer to

election

victory

By Eric Frey in Vienna

Austria's far-right party

leader Jörg Haider appears

likely to be elected governor

of the province of Carinthia.

in what would amount to a dramatic political comeback.

Mr Haider's Freedom party

won a decisive victory in

Carinthia last Sunday, but

he still requires votes from

his political opponents if he

is to win when the new

governor within the next

month.

norship.

a majority.

to 21 per cent,

regional assembly elects a

The Social Democratic

party and the conservative

People's party, which make

up Austria's ruling coalition

and suffered heavy losses in

Sunday's vote, yesterday reaffirmed their opposition

to Mr Haider's candidacy.

But they also indicated they

would not feel able to pre-

vent the charismatic popu-

list from winning the gover-

Both parties fear a back-lash if they should be seen to

deny the election's clear win-

ner the spoils of victory. The

People's party is expected to

boycott the deciding vote

and so leave Mr Haider with

The Freedom party last

Sunday increased its share

of the vote by 9 percentage

points to 42 per cent and for

the first time surpassed the

Social Democrats, which fell

back 4.5 points to 33 per

The People's Party, which

held the post of governor for

eight years, dropped from 24

local elections

exert pressure on Mr Milosthe Kosovo Liberation Army ment. The State Department commitment to sign by the KLA leadership on Monday. But the rebels' official news agency has made no mention of this, warning instead that Serbian attacks had jeopard-

rity forces and ethnic Alba-

nian rebels underlined the

parlous state of the cease-

fire. Mr Milosevic has also

Mr Holbrooke's ability to

CONSENSUS NEGOTIATIONS UTILITIES WANT RESOLUTION OF TAX DISPUTE FIRST

# German energy sector pulls IMF had advised Romania to seek refinancing of its international bonds from Nomura and Merrill Lynch the origination of the ori

Germany's energy industry yesterday pulled out of talks with the government on setting a timetable for the closure of the country's nuclear power stations.

Chairmen of the main energy utilities withdrew from so-called "consensus" talks with the government, pending resolution of a separate dispute over the tax burden they face as a result of legislation introduced by minister.

After a meeting between industry leaders and Chancellor Gerhard Schröder, RWE, the Essen-based power and industrial group, said that only after the tax issues had been considered could

nuclear power. The governtalks to resume after Easter, but the energy companies were privately sceptical. Mr Schröder is seeking

industry agreement on a phased shutdown of Germany's 19 nuclear power stations. The Bonn government had already been forced into a series of retreats before yesterday's meeting.

Last month, the government dropped plans for an early han on the reprocessing of nuclear waste following strong protests from the energy industry. Later, Jürgen Trittin, the Green environment minister, shelved Dietmar Kuhnt, chairman of the remainder of his proposed legislation that paved the way for a shutdown. However, vesterday's meeting highlighted the dif-

ment said it expected the ble agreement on nuclear fell unexpectedly by 6,000 to power. Veba. the Dusseldorfbased energy and industry group, described the meeting's atmosphere as "hard". Failure to reach agreement would further heighten tension between Mr Schrö-

der and his coalition partner, the Green party. The finance ministry is to conduct talks with the energy industry about the impact of changes to the tax treatment of their massive

reserves. The utilities estimate they face paying an additional DM25bn (€12.78bn, \$13.92bn) tax as a result of Mr Lafontaine's reforms, due to obtain their final parliamentary approval on March 19. The finance ministry estimates the correct figure to be about

faces in reaching an amica- • German unemploymen 4.076m, or 10.5 per cent of the workforce, last month after seasonal adjustment according to figures released yesterday. The fall followed a revised drop of 66.000 in January.

However, the latest figures did little to assuage fears that unemployment will remain around the current level for most of this year. with recent high wage settlements increasing labour

Unadjusted unemployment, which receives more attention in Germany, rose 9,700 in February to 4.465m. Separate figures from the federal statistics office showed employment rose slightly last year to 33,92m after falling continually

# discussions take place on flculties Mr Schröder still Former French PM cleared in infected blood case

By Robert Graham in Paris

A special French court yesterday cleared Laurent Fabius, a former Socialist prime minister, of all responsibility for blood supplies contaminated at the onset of the Aids epidemic in the

Sitting for the first time to try crimes alleged against serving members of government, the Court of Justice of the Republic also acquitted Georgina Dufoix, social affairs minister in Mr Fabius' 1985 cabinet. However, Edmond Hervé.

the cabinet's health minister, was found guilty of failing to implement screening of blood donors and for not recalling for tests persons who had been given infected blood transfusions.

A total of 1,348 haemophiliacs were infected by blood transfusions during the 1980s, of whom 625 died. A further 4,000 to 5,000 persons given blood transfu- But some either declined to nevertheless criticised for responsibility for administrasions were infected - giving appear or limited their testi- failing to give proper impor-

France a much higher rate of HIV infection than any other country in Europe. Despite pinning responsi-

bility to Mr Hervé for the deaths of two haemophiliacs during the period in 1985 when his ministry should have introduced proper screening measures on blood supplies, the former minister was given no sentence. This. coupled with the absolution of Mr Fabius, provoked unease among representatives of the victims, who were unable to take part in

the proceedings. The judgment now opens the way for a final case in the criminal courts against some 30 senior civil servants on counts of manslaughter. negligence and endangering public health for their alleged role in the sorry tale of France's contaminated blood scandal.

Most of these civil ser- said there was no case to vants were called as wit- answer. The health and nesses in the Fabius trial. social affairs ministers were done to clarify their future

mony to reading prepared statements to avoid incriminating themselves. As a result the trial did

little to draw out evidence and the families of victims felt the accused were given too much protection. This, they said vesterday, had allowed Mr Fabius, currently speaker of the national assembly, to emerge fully vindicated.

Lawyers for Mr Fabius were able to demonstrate he was unaware of efforts by his own advisers to delay the introduction of proper screening until a test devel-oped by Diagnostics Pasteur. the French laboratory, was ready to compete with one already produced by Abbott

The verdict had been widely anticipated when at the end of the three-week long hearing the prosecution

tance to the health issues raised by the Aids scare. The court was composed of

three professional judges and 12 parliamentarians seven from the right and five from the left. Three judges voted for Mr Fabius to be found guilty, 12 for his acquittal. In the case of Ms Dufoix, a minority of five judges sought her conviction for failing to pay sufficient attention to the warning signs of the risks arising from infected blood.

As health minister, Mr Hervé was most directly concerned with the Aids epidemic. But one of the reasons for which eight of the 15 judges backed his conviction was a belief he had devoted too much time to his political activities as mayor of Rennes and not enough to his ministry.

Despite the lenient verdict. politicians yesterday voiced fears that too little had been tive decisions.

Mr Haider's victory in Car-

inthia has put the ruling coalition in Vienna on the defensive ahead of nationwide elections later this year. The government of Chancellor Viktor Klima is now under pressure to offer significant tax cuts in the tax reform package planned for this year. It may also take a harder

line against a quick enlarge ment of the European Union, which Mr Haider opposes on the grounds that it would result in a flood of immigrants and threaten jobs in

# Mer new pressure EU budget rebate

EXERNESOAY MARCHAE

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AND WELLIST, Francisco III. Francisco and the second second A SEAL PROPERTY. Free Carron and a second Farmer ...

N CONZENSHIP REFUGILS agreed on outline bill

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**NATO** 

EASTERN EXPANSION ADMISSION OF POLAND, CZECH REPUBLIC AND HUNGARY THIS WEEK GIVES NEW URGENCY TO EFFORTS TO UPGRADE MILITARY APPARATUS

# Western companies race for defence prize

Weapons makers have been targeting central and eastern Europe in recognition that it will be the marketplace of the future, Alexander Nicoll reports. Tomorrow FT writers examine preparations in Hungary and the Czech Republic for accession to Nato

t's a big prize," says an with them on a day-to-day executive from one west-basis." ern defence company. The prize is supplying former Warsaw Pact countries with their next generation of weapons. But it is still some

Western weapons makers have been circling central and eastern Europe since the end of the Cold War.

They have been seeking to for a working military build contacts in alliance. governments and companies with the aim of being in a strong position when decisions on new contracts - members, with equipment especially aircraft purchases including modern radar.

 are made. The admission of Poland, helped with programmes to the Czech Republic and reform the structure of Hungary to Nato this week armed forces, in which will give new urgency to the Soviet-era tanks and three countries' efforts to artillery predominate, to upgrade their old Soviet bloc make them more flexible military apparatus so that it and deployable in keeping is compatible with that of with Nato's modern-day

other Nato allies. However, Nato has made it clear it does not expect new members to bust fragile low-profile business for budgets with purchases of

shiny new weapons. Instead, it wants them to begin by improving existing communications, computers military infrastructure. "We've said they should

focus on the software before the hardware," a Nato official says.

To this end, the new members will get access this week to a \$1.5bn fund under Nato's security investment

programme. The money will be used initially for purposes such as improving secure communications and other nuts-and-bolts requirements

Nato's next priority will be upgrading air defence systems of the new

New members will also be missions such as in Bosnia.

All this will produce important, though perhaps defence companies. particularly in the area of "C4I" - command, control,

and intelligence. But the plum to which most of them are looking forward is the replacement of ageing Russian-made "The important thing is aircraft. All the new Nato that we are able to interact entrants - and several other

countries - have fleets of old MiGs which are difficult to maintain and, because of financial constraints, are mostly in the air for small

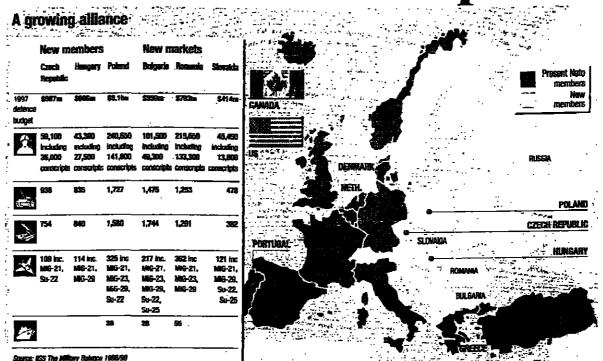
numbers of hours each year. The Czech Republic and Poland are at the top of most western companies' lists. Boeing, British Aerospace, DaimlerChrysler Aerospace, Dassault, Lockheed Martin and Saab have all been scrambling for footholds there, as well as electronics suppliers such

GEC-Marconi. The companies conscious that for the buyers, aircraft orders are of building high-technology industry and skilled jobs.

🕇 ood industrial offset packages, involving technology transfer which builds aerospace and other industries, will be just important as capabilities of the aircraft. Prague is expected to issue

a letter this month inviting bids to supply 36 fighter aircraft at an estimated cost of \$1.6bn, to replace 40 MiG-21s which are old and thought to be in a poor state of repair.

Candidates are likely to be the BAe/Saab Gripen, Boeing's F/A-18. Dassault's Mirage and Lockheed's F-16.



its position in this race by spending Kc950m (\$27.5m) on a 34 per cent stake in Aero Vodochody, a state-owned maker of light aircraft, which makes the Czech L-159 fighter-trainer and also

supplies parts for Boeing civil aircraft. Poland has taken the first step in modernising its air force, but it is a move intended to put off a competition for new

purchases. In February, it signed a contract with Daimler-

Boeing last year enhanced Chrysler Aerospace (Dasa) to upgrade 22 MiG-29 aircraft to Nato standards.

Dasa had already done the me to 23 Mig29s inherited by the Luftwaffe from East Germany, and is in talks with Hungary, Romania, Bulgaria and Slovakia for similar deals – Czechs have sold their MiG-29s.

BAe established a strong foothold last year when it made PZL Mielec, a Polish aircraft manufacturer, a supplier of airframe parts for its Hawk jet trainer.

The tendency of defence contracts to be long drawn-out affairs suggests decisions by both Prague awards may still be years

away. But marketing efforts

by defence companies are

likely to gain momentum.

Sir Charles Masefield, vice-chairman of GEC and former head of the UK ministry of defence's export sales organisation, says that the expansion of Nato "is generating much more rapid requirements

than anybody thought".

has been offering to lease second-hand fighters, Lockheed Martin also sees business coming from small heginnings, "We recognised that the number one need was to build domestic infrastructure, while also needing items such fighters," says a Lockheed executive in Fort Worth,

Though the US air force

Texas, home of the F-16. "We see this region as a very significant market place of the future."

UK's Nato pians, Page 8

### Solana proposes Balkan aid deal

By David Buchan

Javier Solana, Nato secretary general, yesterday proposed that the west offer the Balkan region a package of political and economic benefits, as well as military security, in what he called a "partnership for prosperity".

"Without a comprehensive approach to the region's problems, we will never get beyond treating its symptoms." Mr Solana told a London conference on Nato's 50th anniversary.

The Nato chief said the starting point had to be Belgrade's agreement to a Natoled peacekeeping force to oversee an effective settlement in Kosovo.

If the west could get agreement on this, "we should give a wider signal to the Balkan region of its place in Europe politically and economically", he said.

Mr Solana gave no specifics about his proposed "partnership for prosperity", but it is understood to include some of the offers which European Union leaders have put to President Slobodan Milosevic in recent days.

The EU has said if Belgrade accepts a Nato-led force, it is ready to reverse its Kosovo-related transport and financial sanctions on Yugoslavia, and provide a Kosovo aid fund that could indirectly benefit Serbia.

**TURNING POINT IN COUNTRY'S HISTORY** 

# Poland's accession: an end to uncertainty

By Christopher Bobinski

When Poland joins Nato on Friday at a ceremony in the US town of Independence, Missouri, it will mark a turning point in the country's often tragic history, after taking part in Nato reduced and the officer corps centuries of turbulent relations with powerful and

It will also bring a welcome end to the uncertain- ber of troops trained and standards in command and Poland's defence planners, grow. Other units will be relleft without allies after the collapse of the Soviet- torial defence forces which parliament's defence com the early 1990s.

predatory neighbours.

doctrines. demands Nato is making of and British Aerospace are to Nato standards return Poland's dilapidated armed already competing fiercely: after military service to

tys (\$3.05bn) or 2.1 per cent deputy defence minister. of gross domestic product. Around 11.5 per cent of the are insisting that any deal haps because of the financial total budget will be spent on will have to include commit- cost of the exercise. Almost tasks related to Nato mem- ments by the suppliers to 40 per cent of those asked in bership, including the adap- take part in the privatisation a recent poll how they felt tation of MiG-29 and Sukhoi of the country's ailing arms about Nato membership said

in Nato airspace. that communications equip- ments.

ment is in place to allow contact with Nato command and to permit Polish units to identify Nato aircraft. Poland will also be concentrating on bringing several units up to a standard at which they will be capable of the possible intervention by

the alliance in Kosovo. tain.

forces are modest and fit contracts for new fighter air- civilian careers. well within the limits of its craft could be awarded by

The Poles, for their part, now that it is imminent, perfighters to enable them to fly industry. They also want they were indifferent. There successful companies to is little outright opposition, The main challenge, ini- place work with local indus- however, and those in favour tially, has been to ensure try under "offset" agree still number just over 50 per

Nato membership is revolutionising Poland's armed forces. Their numbers have been cut from 460,000 at the beginning of the 1990s to 240,000 today. Slowly surplus military bases and equipment stockpiles are being operations abroad, such as cut back to reflect the present size of the armed forces.

The main change, though, In coming years the num- the introduction of Nato ties which have faced armed to Nato standards will logistic systems, will have wider implications. Bronisegated to the status of terri- law Komorowski, head of dominated Warsaw Pact in are much cheaper to main- mittee. says Poland's defence establishment will be trans-From now on military The bulk of spending on formed into a force for strategy arms decisions and new equipment will be put modernising society as a training requirements will off until next year and the whole. This will have consebe defined by Nato military years following. However, quences in coming years as US and European defence officers and men with lanin the first instance, the companies such as Boeing guage skills and training up

Oddly, Poles appear to defence budget. This is set the end of this year, says have grown lukewarm about this year at around 12bn zlo- Romuald Szeremetiew, the the historic accession to the western military alliance cent

# POLISH FOREIGN MINISTER URGES FURTHER EXPANSION Keep looking to east, Geremek tells Nato

By Stefan Wagstyl and Christopher Bobinski in Warsaw Nato must keep its doors open to further eastward expansion following this week's entry into the alliance of Poland, the Czech Republic and Hungary, or else risk the creation of a new Iron Curtain, according to Brouislaw Geremek, the

Polish foreign minister. Mr Geremek, in an interview with the FT, said increased economic co-operation would be central to Geremeic economic dimension building bridges in central Nato members and non- nomic links with non-Nato the wider European interest. and eastern Europe between members in the former countries could best be built Soviet bloc, including the via the European Union and of this "nationalistic reacthree Baltic states and Slo- the North American Free tion to the process of unifyvakia, Bulgaria and Trade Agreement (Nafta).

Romania. reappear, albeit in a differ- opment of an economic nationalist Jörg Haider in ent geographical location, dimension to Nato itself, regional polls in Carinthia. and cut Europe in two once although it is anxious such Mr Haider takes a tough again," he said. It would be proposals should not be seen stand against EU enlargedangerous for the peace and simply as a request for ment warning that it would stability of Europe to accept money from wealthy west- threaten jobs in Austria. that former Soviet republics ern members of the alliance. former satellite states such Poland, Nato entry was the of the euro will create a



Mr Geremek said eco- national interests and not on

"The Iron Curtain could keen to encourage the devel- success of Austrian ultra-Mr Geremek said for case. I hope that the launch

reunited with its former wartime allies, from whom it had been separated by the Yalta accord. "By joining the world's strongest military alliance, Poland gets not just security but also a sense of security which is also very

important." He warned current EU member states against excessive delays in accepting Poland and other candidate countries. The main problem was a weakening of the political will in favour of enlargement, with EU countries concentrating on their own

ing Europe". Mr Geremek Poland is thought to be said, was the recent electoral

"I hope this is an isolated as Poland - could never join "real end of the second strong European consciousworld war". Poland had been ness," said Mr Geremek.

ABRIDGED AND AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 1998

A DIAMOND IS FOREVER

Attributable to De Beers linked units ♦ Headline earnings down 39% in US Dollars to \$639 million and

26% in Rand to R3 529 million

Dividends for the year down 22% in US Dollars (80.2 cents) and 6% in Rand (R4.70)

Rane	d millions		US\$ i	nillions
1997	1998		1998	1997
29 280	24 845	Turnover	4 492	6418
3 871	3 237	Diamond account	585	849
1 061	I 267	Investment income	229	233
279	158	Interest income	29	16
5 211	4 662		843	1 143
663	776	Prospecting and research	140	145
266	516	Interest payable	93	58
20		Exceptional items		4
201	39	Other	8	44
4 061	3 331	Net income before taxation	602	892
1 148	I 005	Taxation	182	252
2 913	2 326	Net income after taxation	420	640
(94)		Attributable to outside shareholders	(46)	(21)
2819	2 070	Own earnings	374	619
2017	7 910	Retained earnings of associated companie		317
I 852	1 526	Current trading	276	405
936	(183)	Exceptional and non-trading	(33)	205
5 607	3 413	Total net earnings	617	229
3 607	3 713	1 oras uer em musa		1 227
		Retained as		
2 822	1 459	Non-distributable reserves	264	819
884	142	Distributable reserves	44	220
ai 90i	1812	Dividends on linked units	309	3 <b>9</b> 1
5 607	3 413		617	1 229
		Reconciliation of total net earnings		
	2 412	to headline earnings	417	I 229
5 607 20	3 413	Total net earnings as above Exceptional items as above	617	4
20		Net surplus on realisation of fixed assets	and	7
67	(67)	investments less provisions against loans		16
	(3.)	Exceptional and non-trading items of asso		
(936)	183	companies	33	(205)
4 758	3 529	Headline earnings	639	1 044
200	204	Weighted overage number of linked units	204	200
380	384	in issue (millions)	384	380
		Earnings per linked unit		
742c	539c	Own	97c	163c
1 476c	889c	Total net	ióic	323c
1 252c	919c	Headline	166c	275c
		•		
		Dividends		
252.0c	280.0c	Per linked deferred share	47.8c	51.8c
		[Interin: 96.0 SA cents (72.0); Final: 184.0 SA cents (180.0)]		
248.2c	190.0c	Per depositary receipt	32.4c	51.0c
	-,	[Interim: 11.5 US cents (11.5);		
		Final: 20.9 US cents (39.5)]		
500.2c	470.0c	Per linked unit	80.2c	102.8c
		· <del></del>		

### PRO FORMA COMBINED BALANCE SHEET Rand millions USS millions 1998 1998 1997 pital employed 649 51 914 Linked unit holders' interests 8 856 9 585 Preferred and outside shareholders interests 92 Long- and medium-term liabilities 309 8 009 1 366 886 295 60 464 10 3 14 10 540 Represented by 1026 | 164 666 6018 Fixed assets 25 420 Investments 4 336 4 868 691 28 23 I Diamond stocks 4 816 4 439 372 Stores and materials 64 72 55 I 5312 Current assets 906 935 565 4 889 Current liabilities 834 938 Net current assets (liabilities) (14) 423 72 10 314 10 540 295 60 464 172 24 933 Market value of listed investments 195 15 061 Directors' valuation of unlisted investments 2 569 3 944 2 435 Commitments and contingent liabilities 415 710 68 62 894 Net asset value 10 729 13 759 514c 16 309c Net asset value per linked unit 2 782c 3 619c R5.86 Rand/US Dollar year end exchange rates R5.86 R4.87

RECTORS' COMMENT ficult diamond market conditions of the first half of 1998 deteriorated further in the second half CSO or the year at US\$3 345 million were 28 per cent below the previous year's sales of US\$4 640 million and ed in delivery entitlements to the CSO of 74 per cent in terms of the quota arrangements.

mption continued to reflect varied economic circumstances. The USA performed particularly , with an increase in retail sales of nine per cent. Europe also saw growth in dollar terms of four per lese results were, however, outweighed by poor results from Japan (minus 19 per cent in dollars) and uch East Asian markets (minus 35 per cent in dollars), so that the overall glob ve in doffar terms for the second year in succession (1997 manus Eve per cent and 1998 minus three pe China continued to grow (plus three per cent) albeit at a lower rate than previous years.

SA, the rundown of sucks, particularly of rough, in the cutting centres as a result of the CSO's restrictive solicy over the last eighteen months and a reduction in supply from Angola and the Democratic Republic Congo, and the renewal of the CSO/Russian sales contract for a further three year period expiring on SO has responded cautiously to this improved sentimens, its policy commuse to be to keep supply under al, so that any remaining excess polished stocks can be moved through to the market. While the first two of the year have been higher than those of 1998, the recovery at this stage is too recent to justify ance that the market is over ics difficulties. The reduction of stocks in the trade pipeline is positive it in to CSO sales expectations for 1999, but it will be difficult for the CSO to increase its sales significantly

ood in the industry has improved since the beginning of 1999, based on the strong Christ

there is an improvement in the Japanese and South East Asian retail markets, or new markets are sed for those categories of diamonds which were sold into that region prior to July 1997. ng approval by deferred shareholders of De Beers Consolidated Mines Limited (DBCM) on 15 January of the DBCM element of the transaction for the disposal by De Beers to Anglo American Corporation of Africa Limited (AAC) of their Interests in various listed and unlisted companies and joint ventures, DBCM

Beer: Centanary AG were issued with letters of entitlement to 15 993 515 and 1 855 218 new AAC (or shares in Anglo American plc) respectively. sected that the publication of the listing paraculars of Anglo American pic will occur rowards the end of

### 999 at which time further details will be posted to De Beers linked unit holders for information.

he DBCM final dividend (No. 158) of 184.0 SA censs per linked deferred share and the Centemary itary dividend distribution (No. 18) of 20.9 US cents per depositary receipt are due to be paid of eday, 26 May 1999 to linked unit holders registered at the close of business on Friday. 26 March 1999. The registers will be closed from 27 March to 3 April 1999. The full conditions relating to the payment of the R4.56 R5.53 Rand/US Dollar average exchange rates R5.53 R4.56 R5.53 Rand/US Dollar average exchange rates R5.53 R4.56

**DE BEERS CENTENARY AG** 

Copies of the provisional annual financial statements and dividend notices will be posted to linked unit holders on or about 11 March 1999 and will also be available from the following offices:



36 Stockdale Street Kimberley, South Africa

(Incorporated in the Republic of South Africa) (Company Registration No. 11/00007/06) 17 Charterhouse Street London ECIN 6RA, England

DE BEERS CONSOLIDATED MINES LIMITED

(Incorporated under the laws of Switzerland) Langensandstrasse 27 CH-6000 Luzern 14, Switzerland

The preliminary results may be accessed on the Internet through an independent service provider at http://www.edata.co.za

should consider direct injections of liquidity into developing countries if further financial instability threatens a global recession, says a report from the United Nations Conference on Trade and Development.

As a consequence of financial turmoil in Brazil, world growth is set to be at the low the International Monetary markets. Fund, the Organisation for Economic Co-operation and Development and others last year. Growth this year could halve to 1 per cent from an industrialised world hold the estimated 2 per cent in 1998 key to global economic and 3.2 per cent in 1997.

continued stagnation in combat the effects of shrivel-Japan, slowing growth in the ling financial flows. US and Europe and possible

By Alice Rawsthom in London

internet recorders, such as

the Rio, a \$200 product devel-

oped by Diamond Multime-

The music industry is try-

ing to find ways of curbing

the rising use of portable

recorders that can be used to

store and play pirated music

posted on unauthorised

internet sites. The industry

Association of America

(RIAA), the body that repre-

sents US record labels,

mounted an unsuccessful

law suit last autumn to stop

the Rio from going on sale.

The Recording Industry than \$200.

dia in California.

authorised material.

mainly because the economies most affected by the Asian financial crisis have ceased to shrink.

The downside risks to the world economy have also become more acute in recent months. Unctad warns of the possibility of a sharp correction in equity prices in industrial countries coupled with a rise in risk aversion, and hence further declines end of gloomy forecasts by in capital flows to emerging

The report, prepared for the Association of South-East Asian Nations (Asean), says policymakers in the recovery, but that imagina-The 1999 outlook reflects tive responses are needed to

recession in Latin America. scope in the US, the Euro- des Nations, CH-1211 Geneva Though Asia is expected to pean Union and Japan to use

Music industry seeks to

and other bodies fear that

Since the RIAA lost its

case, a number of other elec-

tronics manufacturers have

products. The Yepp, a credit

card-sized device, will be

launched this summer by

Samsung of South Korea.

Creative, a Singapore-based

company, plans to introduce

packet and will retail for less

Having accepted it cannot

stop such devices, the music

industry is trying to ensure

The Secure Digital Music

they cannot be used to

Internet piracy is already a Initiative (SDMI), an alliance lines by the end of June.

breach copyright.

download pirated music.

become concerned about the the availability of devices.

growing availability of inex- such as the Rio, will encour-

pensive, easily operable age even more consumers to

would like the recorders the Nomad, which will be

made able to record only the same size as a cigarette

serious problem for the of RIAA members and tech-

music industry. The RIAA nology companies, has set

curb internet recorders

economic slowdown, this may not be sufficient on a global scale if the crisis deepens, the report says.

It suggests instead that the EU and Japan "recycle" part of their current account surpluses to cash-starved developing countries through official channels "to raise demand, imports and growth". This could be done in three ways:

· debt relief through a rapid write-off of unpayable official and multilateral debt; • regional aid plans to pump funds into the crisisridden Asian economies: a substantial allocation of Special Drawing Rights to developing countries and economies in transition from communism.

Global Economic Conditions While there is plenty of and Prospects. Unctad. Palais

up a group to map out guide-

lines whereby the software

specifications of portable

devices will be tailored to

prevent them recording and

replaying unauthorised

At present, most of the

songs posted on the internet

are illicit versions of copy-

righted material by popular

acts, such as Lauryn Hill or

Robbie Williams. However,

more authorised material

will become available online

when the record companies

launch their own internet

The SDMI working group.

sales systems this autumn.

chaired by Jack Lacy, an

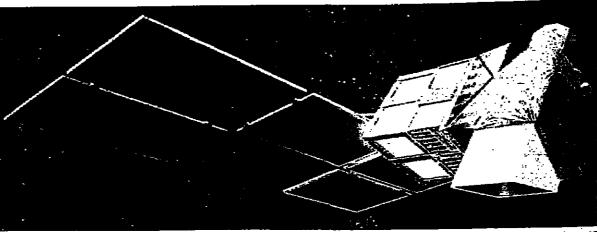
executive with AT&T's

a2bmusic subsidiary, with

representatives of Sony

Music and Matsushita, hopes

to have agreed the guide-



# European satellite companies circle over lucrative Japanese surveillance project

on the contest for a \$1.6bn contract

group of western busi-A nessmen gathered at the Liberal Democratic party's headquarters in Tokyo one day last month. Representing Europe's leadthey had come to market satellite technology to Japan's ruling LDP and government officials. At stake is a Y200bn (\$1.6bn) programme to launch four surveillance satellites in 2002.

For Aerospatiale. Matra Marconi Space, Alcatel Space, DaimlerChrysler Aerospace and Thomson CSF, all represented that day, the meeting was a crucial opportunity to press the case for European participation in what could be a lucrative business.

But it will not be easy. The government, which has allocated initial development funds in its 1998 supplementary budget, is hoping to rely on domestic technology to develop and build the satel-

"This is a problem that has to do with Japan's security, so basically we plan to develop and produce the satellites ourselves," says one

The National Space Development Agency of Japan (Nasda), which has guided Japan's national space development effort, has launched

in place to launch its Advanced Land Observing Satellite (Alos) in 2002. This ted to form the basis for the new satellites.

Amid the general economic gloom, domestic companies such as NEC and Mitsubishi Electric will be desperate to claim a share of new business from a client that has a reputation for offering attractive margins. But Japan's limited experi-

ence in the satellite business, the tight schedule the government faces and cost considerations provide an opportunity for foreign companies with proven exper-

panic after North Korea observation." launched a rocket over Japanese territory. The Japanese rassed by its dependence on US military intelligence and clear lack of viable options in case of a missile attack.

The government decided to strengthen its intelligence capabilities by launching the satellites as soon as possible. Since Japan is committed to the "peaceful" use of space. the satellites are to be used for commercial and scientific purposes as well as for militar; surveillance.

However, if Japan is to keep to its schedule of 2002 it will almost certainly resolution of SIcm, next

Michivo Nakamoto lites and already had a plan home-grown technology. "It is possible for Japan to develop the satellites but there are questions of cost development work is expec- and delivery, which will put of 1 metre. Helios-IL schedforeign companies at an uled for launch in 2001, is advantage," admits a government official.

It takes four years to build a satellite from an existing design and although Nasda has started work on the Alos, there is no guarantee it

will be ready by 2002. Furthermore, it would be "cost effective to rely on some already developed equipment" and would make for a more reliable proenced contractors on board," says Matra Marconi Space, a prime contractor for the The plan to launch four Helios satellites, which satellites was put together claims to be "the leading hastily last year amid the non-US company in earth

> ore crucially perhaps, there is little guaranl tee that a Japanesemade satellite could perform the surveillance functions Japan wants.

It wants the satellite to carry a sensor that is able to observe objects on earth as small as 1 metre. There are few companies able to prowide that kind of resolution. Nasda is developing a sensor with 2.5-metre resolution, but this is only planned for completion in 2003. Lockbeed Martin, the US company, is launching Ikonos, a

Spain launched in 1995, is believed to offer a resolution expected to provide a resolution of 50cm, although there are questions about German funding for this Franco-Ger-

man programme Although Nasda has launched four informationgathering satellites in the past, the last one, in 1996,

broke down within a year. Furthermore, while the official stance is that the satellites will be developed and built with domestic technology, "there are international political considerations to take into account," admits one government official.

"We are making a commercial satellite so we will have open competition, according to WTO rules," proclaims the LDP's Mr

Lockheed Martin, which has 40 years experience in the field, would be the natural candidate to participate, given the close defence ties between the US and Japan. However, the LDP appears to be more actively in touch

with the Europeans. Mr Nakayama has not yet been visited by a US delegation. In spite of its stated intention to use domestic companies, there are signs of indecision. "It might be difficult to meet our goal of choosing launching the satellites in commercial satellite with a the contractors by the end of the fiscal year [in March]," says a government official.

### S Korea adjusts steel prices

South Korea's Pohang Iron & Steel (Posco) yesterday said it still planned to offer discounts to domestic consumers who buy large volumes of steel, despite a decision to end subsidised prices for

local buyers. Posco, the world's second largest steelmaker, will abolish its dual-pricing policy. under which it supplied steel to export manufacturers at rates lower than those offered to foreign buyers. because of a threatened trade dispute with the US.

Analysis said the move had also been expected because the privatisation this year of state-run Posco would allow it to improve earnings by charging market prices to domestic consumers. Posco reported a record profit in 1998 because of higher overseas sales.

The system of subsidised prices was introduced in the 1970s to boost export competitiveness by offering manufacturers lower prices for steel, petrochemical and textile materials. Posco supplies about 75 per cent of domestic steel demand.

The reduced steel prices were largely based on raw material costs, without taking into consideration foreign exchange rates and overseas steel prices.

US steelmakers have complained the dual-pricing system violates World Trade Organisation rules on subsidies. Robert Fisher, the US deputy trade representative. told officials in Seoul last week that Washington was concerned the dual-pricing system was causing a sharp rise in steel exports to the US. He said Korean steel exports to the US rose 27 per cent in January from December, while steel shipments from Japan, Russia and Bra-Korea's minister of state for trade, said exports to the US were expected to fall this year as demand elsewhere

### INTERNATIONAL

# UK presses Sierra Leone peace initiative

By Quentin Peel in Abuia

The British government vesterday urged the democratically elected president of Sierra Leone to sue for peace with the rebel forces between Robin Cook, the UK that have terrorised the foreign secretary. Ahmad impoverished west African state for the past five years.

Britain is offering the services of its frigate HMS Westminster, currently sta-

provide humanitarian assis- between his Revolutionary their support for the elected country is in deep economic international support. tance in the ongoing civil war, as a potential location for peace talks.

The initiative was launched vesterday at talks Tejan Kabbah, the president of Sierra Leone, and Abdul Rahman Abubakar, the Nigerian president in Abuja.

It came as a detained rebel

ian-led west African peacekeeping forces.

Yesterday's talks in Nigeria were intended to step up the pressure on Mr Kabbah to negotiate with the rebels, in spite of the brutality with which they have waged the war and the lack of any clear leadership in the field. At the same time, tioned off Freetown, the leader in Freetown, Foday both Britain and Nigeria

United Front and the Niger government in Sierra Leone The chaos in that country. whose only source of wealth

is its diamond mines, currently controlled by the rebel forces, has become a headache both for the UK, as the former colonial power and principal aid donor, and for Nigeria whose troops have been keeping Mr Kabbah in power. The war is costing Nigeria

Sierra Leonean capital, to Sankoh, called for a truce insist they are maintaining about \$1m a day, when the

crisis and unable to service its \$38bp external debt. Nigeria has also lost up to

elected to take over as civilian head of state from Gen Abubakar, wants to pull out of Ecomog, the west African peacekeeping force, to which Nigeria has contributed most of the troops. The present Nigerian government wants Britain to get more involvement.

Sierra Leone has also proved a political nightmare for Mr Cook, because of the 1.000 soldiers in the conflict. involvement of the British Olusegun Obasanjo, newly company Sandline in breaking a UN arms embargo to support the Kabbah government. allegedly with the knowledge of UK government officials.

The Foreign Office was sharply criticised by a parliamentary committee for its

### hope to capitalise on Franco-British networks to promote their own trade and develop-

# Unscrambling the scramble for Africa

A century ago European nations were competing to carve up Africa, establishing sphères of influence that last to this day. But now the familiar pattern is starting to unravel, writes Mark Turner

Britain met in St Malo last December Malo last December and launched a joint temple to Parisian chic - is approach to Africa, many an eloquently high-profile observers doubted that more than a century of competition for economic and political influence could suddenly be replaced by co-operation.

Yet this week Robin Cook. the British foreign secretary. and Hubert Védrine, the French foreign minister, are paying the first joint visit to Ghana and the Ivory Coast. will discuss how to put into policy harmonisation, information exchange and even joint representation where only one partner boasts an

outpost. The new message has yet to get through to everyone. Businessmen and diplomats from both sides of the divide in Africa remain as joyfully suspicious of each other as ever, and take an almost childish glee in each other's difficulties.

This is well demonstrated competition which has chartic view of the continent. acterised recent inroads by France into Kenya, the heart of British influence in East ourful but equally vigorous Africa, and a parallel British

hen France and push into the Ivory Coast. The newly revamped Maison Française in Nairobi - a testament to France's push for more influence in East Africa, and is home to large new regional development and research centres.

image of contemporary France," says Mehdi Drissi. the centre's energetic director. "We promote our culture through plays, singers, uni-In Abidjan, French and Brit- versity exchanges. The Alliish ambassadors to Africa ance Française [language school] here has 5,000 stupractice the St Malo call for dents, making it second worldwide: only New York is

President Jacques Chirac underlined his country's move beyond traditional boundaries in no uncertain terms when nearly all Anglophone African leaders attended the recent France-Africa summit. France claims that although its commitment to French Africa is as great as ever, it wants to move away from its old concept of the "backby the underlying sense of yard" and take a more holis- Foreign Office's minister for

Half a continent away, the

British are making a less col-

"We are promoting a real

West Africa's most vibrant was the country's second largest investor, after France, with companies from British Airways and Framlington to Crocodile Machetes moving in over the past few years, and has been raising its profile with trade missions and fairs,

"We want to get away from the idea that somehow there are countries that are outside our interests in West Africa," said Tony Lloyd, the Africa, on a recent trip to the country. At the heart of each coun-

try's efforts is a recognition

push into the Ivory Coast, that they could be missing

out on some big commercial economy. The UK last year opportunities on the other's patch. France and Britain (to a lesser extent) continue to dominate trade relations with their former colonies. but are making inroads across the divide. In Kenya, exports from both countries have risen considerably over the past five years, with the UK up almost 80 per cent and France up 40 per cent from 1993 to 1997. In the Ivory Coast British exports almost doubled over the same period; albeit from a

> while French exports rose by a little over 30 per cent. The St Malo meeting, however, appears to mark a rec- the continent, and which

much lower relative base,

the Berlin congress of 1885. Now Britain and France are nibbling the other's portions ments that a new scramble for Africa would both be damaging and difficult especially at a time when the US is making increasing inroads into the continent. and new competition emerges from East Asia and

> The question is why they are taking a bilateral rather than an European approach, when the EU is becoming more assertive in commerce and politics.

South Africa.

The answer seems to lie in the hands of technocrats who are suspicious of sharing influence with countries with little or no history on

ment strategies. Despite recent cutbacks. France and Britain retain substantial and privileged links to the continent and are loath to see them eroded. Paris in particular has maintained a strong role as benevolent guardian of former colonies: by direct although declining, military support (with bases in Djibouti and Chad), unwavering political support for Francophone African leaders, and a guarantee for the currency of 14 countries in central and western Africa, the CFA franc. There are 114,000 French nationals living on the continent, French culture is dominant in West Africa, and Paris is the world's largest contributor of aid to Africa, devoting FFr18.7bn (€2.85bn, \$3.1bn)

in 1997. Britain also boasts almost 140,000 nationals in Africa, gave £348m (\$560m) in aid from 1996-7, and has improved its ties with African members of the Commonwealth considerably since the days of dispute over how to end apartheid in South Africa. Educational links are strong, and the UK maintains a small military force in Kenya, backed by regular exercises.

If the old rivals do manage to set aside a hundred years of history, and pool their resources on an increasingly troubled and isolated continent, they would offer a formidable opponent to any new upstarts looking for a

piece of the pie. But given the mutual suspicion that remains, it may take more than a few joint visits to cement the alliance.

### NEWS DIGEST

PRESSURE ON KINGDOM'S CURRENCY

### Saudi Arabia 'in fresh move to support riyal'

The Saudi Arabian Monetary Agency (Sama) is believed to have intervened this week to support the rival, the second such move in two weeks. Saudi Arabia's economic problems in a climate of low oil prices have led to pressure on the riyal, with offshore hedge funds short-selling the currency in the hope that the government will devalue. Sama, the kingdom's equivalent of the central bank, first intervened with an estimated \$1bn to support the rival in the summer following the Russian crisis. Intervention about 10 days ago is believed to have been for several hundred mil-

According to bankers, most of the short-selling continues to come from hedge funds, although some local companies are hedging against a devaluation. One banker said that the pressure could ease if the central bank explained that it had enough instruments to support the currency.
Saudi Arabia has about \$60bn in foreign assets. Available statistics show that foreign exchange reserves total only about \$7bn, although Sama may not have published their full extent. Roula Khalaf, London

### INTERNATIONAL TERRORISM

### iran's stance wins praise

Lamberto Dini, Italy's foreign minister, yesterday sald there had been a significant reduction in Tehran's support for international terrorism. At the start of the visit to Rome by Iran's President Mohammad Khatami, the first to the westby an Iranian leader in 20 years, Mr Dini said there had been "a strong reduction" by Iran in the financing of terror-ist activity in the world. Mr Dini suggested that the change had been brought about because of the reformist course led by Mr Khatami himself.

Mr Khatami yesterday met Oscar Luigi Scalfaro, İtaly's head of state, at the Quirinale palace and held talks with

Mr Dini said that the Iranian president's visit, which is being undertaken amid very tight security, was being watched "with great interest" in the US, which is still maintaining sanctions on Tehran. James Blitz. Rome Smiling face, Page 13

### KIO'S MISSING MILLIONS

### Grupo Torras money traced

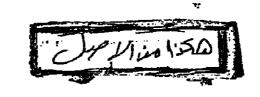
About \$100m allegedly misappropriated from Grupo Torras, the Spanish subsidiary of the Kuwalti Investment Office, has been traced to personal trusts in the Bahamas set up by Sheikh Fahad Mohammed al Sabah, the former chairman of the KIO, according to new evidence revealed during the London legal action over the company's col-

lapse in 1992. Lawyers acting for Grupo Torras discovered in December that more than \$100m of the \$450m misappropriated in total had been paid into a Swiss bank account in the name of Sheikh Fahad. This money has now been traced through New York banks to the Bahamian trust funds and Bedine he news

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The legal action against Sheikh Fahad and other former members of the Grupo Torras senior management has now ended. Judgment is not expected for several months. John Mason, Law Courts Correspondent, London



# High stakes for Brazil in IMF deal

By Geoff Dyer in São Paulo

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Brazil is no stranger to the ways of the International Monetary Fund. Fourteen sets two clear objectives: loans from the Fund in 40 B First, to limit the inflayears bear testament to the country's elusive search for economic stability.

have been as ambitious in policy commitments as the letter of intent the Brazilian government signed on Mon- ratio of debt to gross domesday. Pew have been as important for Latin America's biggest economy, which has seen its currency lose nearly 40 per cent of its value so far this year.

The stakes are high. If the new policy framework works, Brazil will steer clear of the inflation which once ravaged its economy, and lay the groundwork for high growth in the future.

Brazil's neighbours will sigh with relief and the IMF. assailed over its policies in Asia and Russia and for failing to prevent the January devaluation in Brazil, will be able to notch up a muchneeded victory.

But if the new agreement does not quickly restore confidence in Brazil, the effects could be catastrophic.

At the least, the efforts needed to weed inflation out of the economy would require a prolonged recession. The worst-case real and nominal, as soon as resolve this question. scenario would bring a possible. combination of galloping

on domestic debt

After a conventional IMF approach to economic stabilisation, the new agreement tionary impact from the devaluation, in the short

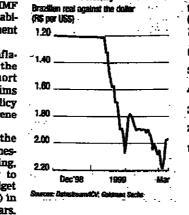
term the government aims But few of those accords to use tight monetary policy and IMF money to intervene in the currency market. ■ Second, to prevent the tic product from exploding, the government will try to engineer substantial budget surpluses (before interest) in each of the next three years.

The price of these goals will be a steep recession, a decline in GDP of 3.54 per cent, according to official estimates. Yet, they have won the support of many economists because of what they see as the absence of other options. "There is no alternative," says Mauro Schneider, economist at ING Barings in São Paulo.

The obstacles facing the new plan are considerable. For a start, the two goals of inflation of 1.4 per cent, the strategy are contradic- while the IGP-M index said tory: high interest rates to prices had risen by 3.6 per subdue inflation aggravates cent in the same period. the fiscal problem by Both measures and reducing tax revenues.

aware of the need to bring tral bank's new team of tech-

Brazil's new floating for the new plan is political. and, for the time being, even inflation and a default exchange rate regime also Last year Brazil's politicians higher interest rates.



faces a number of technical hurdles. Having abandoned

its exchange rate peg, the

government says it will now

as the new anchor for policy.

of Brazil's inflationary his-

tory is a vast array of price

indices, each one explaining

a different aspect of eco-

sumer price index recorded

Both measures are

But the biggest challenge

In February, the Fipe con-

nomic behaviour.

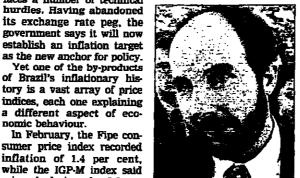
Yet one of the by-products

inflation CPI, Fipe (period average, %) 1995 96 97 98 99

1995 96 97 98 99 2001 Arminio Fraga, the new

Public sector debt

(as a % of GDP)



increasing the debt burden respected and closely were asked to accept budget and reducing tax revenues. watched. Which one to cuts and high interest rates The government is well choose as a target? The cen- to prevent a devaluation. Now that the currency has down interest rates, both nocrats is still trying to been allowed to float, the politicians are being urged to back new budget savings

president of the central bank, admitted that the being asked of Brazil was in 1993, will ensure contin-

All this during a year ted to face one of the worst recessions on record. Few democratic political systems vould withstand such pressure, even if they did not have Brazil's weak political parties and history of populist posturing.

Yet Brazil's record of breaking past accords means of today's financial markets. it will be awarded few con-

"Mexico and Argentina have actually proved that they can tolerate the pain of Molano, economist at BCP tion.

has not yet demonstrated that ability."

Given the recessionary impact of the new programme, the IMF's critics have been quick to say it will not work.

According to Jeffrey Sachs, the Harvard economics professor, the combina tion of budget cuts and high interest rates in an already declining economy could be "disastrous". "Being with the IMF is worse that being without it," he told a Brazilian television channel last

The plan's only hope of political survival is that the fear of rampant inflation, revised fiscal adjustment which reached 2,700 per cent ued political support for the government, despite the when the economy is expec- inevitable slump in its poll ratings.

This case was powerfully made on Monday by Gustavo Franco, who having resigne as central bank president at the start of the currency crisis, was formally handing over to his successor.

Inflation is a type of state violence against the citizen," that, in the Darwinian world he told the audience, "The restoration of the currency [in 1994] was a reunion with a future that we thought we had lost."

Mr Franco may be blamed by many for Brazil's present such an adjustment when ills. But these rousing words did win him a standing ova-

### grows as banks stay closed and Richard Lapper in London Ecuador's political and labour unions.

**Ecuador crisis** 

By Justine Newsome in Quito

economic crisis deepened yesterday when the govern- late on Monday to support ment closed the country's the strike, have been hit banks for a second succes- hard by the devaluation and sive day and labour unions called on the government to called a general strike.

day follows a sharp fall in out to buy buses. bank deposits in recent superintendent, announced the move late on Monday. and said it was to "preserve the stability of bank reserves, limit the withdraw-

als that could affect the domestic financial system. and avoid pressure on the currency and the continued rise in prices". The domestic foreign exchange market was also closed.

The government is scheduled to announce economic measures tomorrow. Devaluation of the cur-

rency, the sucre, has added to the troubles of the banking system as many Ecuadobuy cars and domestic appliances and have seen the cost of repayments rise sharply.

Mr Egas said the banking move was taken to allow the launch this week of economic measures aimed at stabilising the financial system and fostering growth. the risk." However, it was criticised by bankers.

"Confidence has been serilost control of the country," said Carlos Larreategui, 1990s. president of the private banks' association.

have been the rallying point for a general strike called for today and tomorrow by

Bus drivers, who agreed freeze the sucre value of dol-The compulsory bank holi- lar-denominated loans taken

The government has weeks. Jorge Egas, bank threatened to send troops to run electricity plants and oil installations. Strikes which paralyse basic services were outlawed last year in constitutional reforms.

> Meanwhile, fears are growing in international markets that Ecuador may be forced to default on its external

In London, Ecuador's Brady bonds rose in early trading but are still trading at average yields of more

than 30 per cent. The price index fell by nearly 8 per cent on Monday.

"The implied risk of reans borrowed dollars to default has increased substantially," said Peter West. chief Latin American economist at Banco Bilbao Vizcaya, the Spanish bank. "The whole macro-economic situation is dire and the financial system is in extreme difficulty and so one should not underestimate

If Ecuador were to default on its Brady bonds it would be the first country to do so ously weakened by the clo-since more than a dozen sure. The government has debtors restructured bad commercial debt in the early

Ecuador has the wors debt indicators in Latin Cuts in public sector America, with a debt to redundancy payments and a gross domestic product ratio

# IMF reforms have 'met Congress demands'

By Nancy Dunne in Washington

US officials told a Senate banking subcommittee yesterday that the International Monetary Fund had made important reforms "broadly consistent" with those demanded by Congress when it approved a \$17.9bn infusion of funds last year.

If Congress is displeased with IMF policy, it should direct its concerns to Robert Rubin, the Treasury secre-

ment exercises influence excess of the explicit percentage vote possessed by the US," he said. "IMF policy does not and will not deviate in any important or fundamental way from the policy

of the US Treasury." He said IMF policies usually generated a nationalist and populist backlash. These tary, and his deputy Larry set in motion "a political Summers, said Gerald dynamic which makes it dif-

which has opposed the Fund. of the IMF in the domestic and accountable institution", these were a reduction of reforms, such as bankruptcy "The US Treasury depart- reform process is helpful".

over the IMF policy far in IMF must frequently revise its initial conditions. "IMF conditionality first brings economic pain and then political reaction. Political reaction slows reform, which leads the IMF to revise its conditions so as to conform to political reality in the debtor country."

Timothy Geithner, Trea-

tive Heritage Foundation, dently that the participation become "a more transparent investment regimes. Among ented economy. Institutional This explained why the documents on IMF programmes as well as policy the Fund's financial posi-

> However, before he arrived to testify, the banking subcials behind closed doors. Commenting on the prob-

releasing many of the main tariffs, elimination of export and harmonisation of import papers and information on certification procedures. It the most, leaving large chaehad also agreed to stop bol unscathed. directing commercial bank lending decisions.

Mr Geithner's optimism on committee met four IMF offi- Korean reforms was countered by Catherine Mann, a senior fellow at the Institute lems of Asian economies. Mr. for International Economics. Geithner said South Korea Korea, she said, had "made sury undersecretary for had undertaken a wide relative little progress" international affairs, said range of policy measures to towards reforms that would

law and the social safety net, subsidies and simplification had affected the smaller She said consolidation of

smaller and weaker banks into large banks presents the appearance of a stronger financial sector.

"But merging the hanks and using government funds to buy back had loans, does not create a stronger institutional culture for credit dis-

# Cuba seeks to put spotlight on bomb trial

Cuba's government, which last west Havana where four ism". week blocked foreign scru- leading opponents of the tiny of a trial of internal dis- government were tried on sidents, has actively sought world attention for the trial day closed hearing. this week of a Salvadorean facing the death penalty for allegedly planting bombs in Havana that killed an Italian

were invited to attend a spa- León, the accused. cious court especially set up

in a fortress built by the the prosecution case was of the Salvadorean as evi- sponsored terrorism," said On March 1, foreign diplo- Spanish in colonial times, to made public inside Cuba. dence that the communist- one Havana-based foreign motives because he needed mats and journalists were cover the start of the trial of The accused were subjected ruled island continues to be diplomat.

"mercenaries". They had based in the US. Cuban television showed criticised aspects of Cuba's

unceremoniously ordered by a 27-year-old Salvadorean to an official campaign of the target of "terrorist" police to stay far away from bodyguard and former mili- vilification branding them as attacks launched by anti- was recruited and paid El communist the cramped courtroom in tary cadet accused of "terror- US-backed "traitors" and Castro Cuban exile groups Salvador to plant bombs in

long extracts from the trial, one-party political system. Last week's secretive trial. September of 1997. In these "sedition" charges in a one- including a carefully and called for a boycott of involved internal questionscripted declaration of repen- elections. They face jail ing of the Cuban govern- killed and 11 other people On Monday a week later, tance and plea for mercy terms of up to six years and ment and the Revolution. Havana's foreign press corps from Raul Ernesto Cruz are still awaiting sentencing. This week's public one is the President Fidel Castro has David and Goliath scenario, In the dissidents' trial only repeatedly held up the case Cuba as the victim of US-

Mr Cruz has admitted he five tourist hotels and a res-"The difference is clear. taurant in Cuba in July and blasts, an Italian visitor was

were injured. Mr Cruz, who faces a Cuban firing squad if sentenced to death, said he had acted purely out of economic money to pay off debts.

### Productivity of US workers up The productivity of US data recently released by the

from Washington.

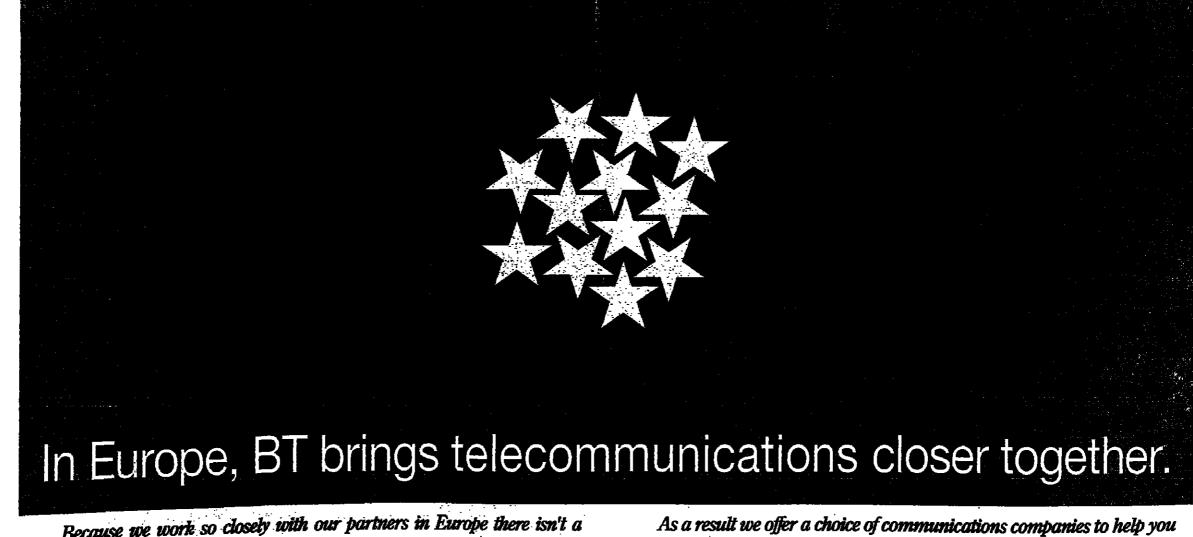
Productivity, measuring year. the amount of goods and services that workers produce productivity reports show an per hour, grew by 4.6 per cent in the quarter ended in full speed but with a lack of December, the Labour inflationary pressures. Con-Department said. It revised sistent with that picture, upwards its previous esti- unit-labour costs fell 1.1 per mate, which had pegged fourth-quarter productivity the department said.

growth at 3.7 per cent. since a 6.2 per cent increase

workers soared in late 1998 Commerce Department at the fastest rate in six showing that the gross years, the government said domestic product of the US yesterday, Reuters reports economy boomed at a 6.1 per cent rate late last

Together, the GDP and economy moving forward at cent in the fourth quarter.

Economists in a Reuters The latest figures for non- survey had expected fourthfarm productivity showed it quarter 1998 productivity to recording its biggest gain be revised to a 4.2 per cent gain. Unit-labour costs had in the fourth quarter of 1992. been expected to decline by The revision incorporates 0.8 per cent.



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China's production grew by 10.6 per an indication that Februincreased state spending on infrastructure, it announced

But this robust perforgetary constraints, which continue Keynesian fiscal spending to drive economic

India's telecoms regulator

yesterday announced sweep-

within three years, in the

sector's most comprehensive

in a phased three-year

"rehalancing" of virtually all

existing telecoms tariffs and

rental rates, the two-year-old

Telecom Regulatory Author-

ity conservatively estimated

that the cuts and revisions

India by 10 per cent within a

year and increase overall

Among the main changes,

which will begin to take

effect from April 1, the regu-

lator said long-distance tar-

iffs would fall by around 45

and international tariffs by

simply increased. from a

rental charges on fixed lines

Rs75-Rs190 a month to Rs120-

Rs250 (\$2.82-\$5.88). Cellphone

tariffs were also sharply cut,

while rental charges

increased to Rs600 a month

The net effect of the revi-

from the current Rs156.

50 per cent over the period.

sector revenues.

overhaul of tariffs.

year-on-year rise in indusindustrial trial output for January was cent in the first two months ary's figure exceeded 10 per this year, mainly because of cent, the official Xinhua news agency said. Industrial output in all of 1998 rose 8.9 per cent.

Economists said the climb mance masked severe bud- in industrial production getary constraints, which should not be taken as a sigmay limit China's ability to nal that China's economic slowdown was over. In fact, the worst was yet to come,

Most of the output has been generated by spending stimulated by a RMB100bn (\$12bn) infrastructure bond issue last year, some RMB58bn of which remains to be spent this year. But this amount is too small to have more than a marginal and short-lived locomotive effect on industry. For example, the value of industrial production in the first two months was RMB280bn, greater than the entire bond

tant to issue more large infrastructure bond tranches this year because the cost of servicing existing domestic and foreign debts is already too high - at RMB235bn. compared with total central budget revenues of

RMB548.3bn in 1998. Nevertheless, plans for rolling out infrastructure appear to be going ahead. China's railways ministry plans to issue RMB3.4bn in

announced a surprise rise in interest rates on US and Hong Kong dollar deposits yesterday. The rate for oneyear US dollar deposits rose to 4.4375 per cent from 3.7500

pressure on the local unit. capital flight from China by deposits in domestic banks, economy rather than merely

China may also be reluc- railway construction pro- is that Chinese would try The People's Bank of minbi into US dollars, China, or central bank, thereby applying downward China's National People's Congress, or parliament, yes terday adopted amendments which elevate the official standing of private enterprise. The changes describe per cent. The move may prise. The changes describe have been aimed at curbing private business as an "important component" of raising the attractiveness of the formerly communist

India's, which suffers wider

fluctuations in power. It was agreed to isolate a Pakistani

substation from its domestic

grid, enabling it to be the

Officials from both sides

also agreed that Pakistan

would at first supply 300MW

of power, though this could

rise quickly to 600MW and

eventually to 2,000MW

depending on the amount of

surplus power arising from

Pricing, however, remains

unresolved. Pakistan has

insisted the tariff should be

set at a level commensurate

with the price of power from

the latest private power

plant to enter its domestic

grid - around 7 cents per

kilowatt hour. India has said

it would be prepared to pay

only the marginal cost of

Pakistan's surplus power

plus a small surcharge. This

would place the tariff around

3 cents to 4 cents a unit. The

private power projects under

construction in Pakistan.

link with India.

### **NEWS DIGEST**

PREPARATIONS FOR REFERENDUM

### Proposals for a republic are unveiled in Canberra

An Australian president would be chosen by the prime minister from public nominations under draft legislation unveiled yesterday on the proposed transition to a repub-

The president would be head of state and all references in the constitution to the British Queen, the current head of state, would be removed if November's national referen-

dum approves the move to a republic.
Under the draft legislation, a president would need approval by two-thirds of the combined parliament. The president would serve a five-year term and could be sacked by the prime minister if parliament approved the dismissal within 30 days.

The referendum will involve two separate ballot papers. To succeed, a referendum requires a national majority and a majority in four states. Gwen Robinson, Sydney

### PRESSURE ON PARLIAMENT

### Thailand pursues reform drive

Thailand's cabinet yesterday resolved to extend indefinitely the current parliamentary session, due to end on March 22, in order to push through long delayed economic, legal

and political reforms. The decision came after a committee of the country's appointed Senate made significant changes to a crucial bankruptcy bill that are unacceptable to the government and the international Monetary Fund. The full Senate will meet on Friday to ratify the changes. If they do so, the bill and other legal changes could be delayed by up to six months before the government can pass its own version.

The extension of the parliamentary session puts pressure on senators to follow the government's original bankruptcy bill and gives the government time to work with the Senate to reach mutually acceptable modifications of other legal changes dealing with foreclosure and land leases. The next ordinary session of parliament is scheduled to

begin in late June. Delay of the key legislation until that time could jeopardise further disbursement of funds from the IMF and World Bank. Ted Bardacke, Bangkok

### INDIAN ECONOMY

### **Growth forecast 'optimistic'**

India's economy will post slower growth this fiscal year than the officially estimated GDP growth rate of 5.8 per cent, according to a leading independent think tank, which calls the government's early estimates of agricultural output "optimistic".

The Centre for Monitoring Indian Economy, the Bombaybased economics research agency, estimated growth this fiscal year, ending this month, at closer to 4.5 per cent. It bases its lower assessment on likely agricultural production growth of 1.5 per cent, against the government's esti-

mate of 5.3 per cent. The agency pointed out that grain production had grown only 1.5 per cent this year, meaning other farm products would have to rise in output by over 10 per cent to justify government figures. Growth in non-foodgrains sectors, it said, had averaged no more than 5 per cent throughout this decade. Mark Nicholson, New Delhi

observers said. But the risk an appendage. said senior Chinese officials. three-year bonds to fund India's cross-border power India to halve international deal reaches final hurdle

By Mark Nicholson in New Delhi

An unprecedented deal between India and Pakistan for the cross-border sale of electricity needs only final agreement on tariffs, according to Indian officials, who claim otherwise "the deal is done".

The agreement would mark a milestone in improved relations between south Asia's newly nuclear rivals after the pomp and rhetoric of last month's prime ministerial summit in Lahore. It may also signal a tentative but noteworthy shift in Pakistan's diplo-

The regulatory authority would boost call volumes in said in a statement that the tariff revisions were only a first step in reforming the sector's overall pricing. The aim was to offer a

users in India.

"transparent framework" for tariff determination, to improve consumer choices and flexibility to service proper cent over three years, viders - which since 1994 include private companies and to move Indian prices in Local call charge rates line with international were revised, rather than norms.

It promised to review the range of Rs0.8-Rs1.20 (2-3 results of the reforms after a cents) to Rs0.6-Rs1.4, while year, and adjust if necessary. The tariff reforms will also will rise on average from directly affect VSNL, the publicly quoted but stateowned monopoly provider of international telecoms, along with MTNL, another quoted public operator which provides fixed line services in Bombay and Delhi.

telephone rates charges for heavy telephone users while modestly increasing overall costs for ing cuts in most telephone average urban users. This rates, including the halving will sharply reverse the curof international call prices rent position, which effectively taxes heavy telephone

Rural users, and those who make fewer than 500 calls a month, together making up 70 per cent of telephone users. will end up paying less than the avermatic approach towards its neighbour.

A third round of bilateral talks on the proposed sale of 300MW of Pakistani power to India are expected to resume later this month. These will cover pricing and payment details, according to officials, who say most technical issues involved in linking the two countries' power grids were resolved in earlier rounds.

agreement, following the recent thaw in bilateral relations between the tradition- eral issue. ally chilly rivals, which culminated in last month's prime ministerial summit in Prospects for the power

future steps towards closer



Nawaz Sharif (right) and Atal Biharl Vajpayee at the Labore summit:

been improved by a politically delicate shift in Pakistani policy towards India.

Islamabad is now apparently prepared to allow some progress on a series of modest bilateral initiatives, such as power and the establishment of the Delhi-Lahore bus link celebrated at the Lahore summit, without insisting that such moves be Indian officials also say directly linked to progress that the "political atmo- on the intractable issue of sphere is favourable" for an Jammu and Kashmir, Islamabad consistently insists that this is the "core" bilat-

Successive Pakistani governments refused to countenance more modest moves to improve relations unless there was at least simultadeal - and perhaps other neous progress on Kashmir.

Pakistani officials appear

to have edged closer to India's equally long-stated position, that addressing the deep-rooted dispute over Kashmir may prove more manageable after earlier moves designed to improve

trust between the two sides. "If we deal with these issues, the Kashmir issue is easier to deal with - they are to improve the atmosphere to deal with the last issue," Sartaj Aziz, Pakistan's foreign minister, said in the margins of the recent Lahore summit. His views have been echoed privately by other senior Pakistani

early fruit of this tentative talks, the two sides resolved tan's power grid with

two sides have also to agree what component of the over all price would be paid in foreign currency. India is looking to buy power over at least 10 vears. But despite currently wide differences over price, Indian

officials say they are confident agreement will be A power deal may prove reached. The deal is done the parameters of the deal rapprochement. In earlier are definite, says Pradip Baijal, the Indian power the problem of linking Pakis- ministry official leading the negotiations.

HK AND BEIJING DEALS GATES ALLIES WITH HK TELECOM AND CHINESE GOVERNMENT

# Microsoft to put Beijing online

By Rahul Jacob in Hong Kong and Louise Kehoe In San

Microsoft, the world's largest software company, will today announce a partnership with China Telecom and the Chinese government's State Economic and Trade Commission, in a project that involves linking government ministries to the

infrastructure. ministries are involved in per cent of the computer

designed to promote a new access to," said Mr Gates. "service orientation" by the ministries. Microsoft said,

Microsoft will donate a wide has been buying stakes in sulting services. Earlier, Mr Gates spoke in

announced an on-line serdeal today in Shenzhen, said puter users to rent software active TV, including home milestone in the construc- films and play interactive demand. tion of China's information video games. "What we've got here is the internet in a

the project, which is users in the world have also gave Hongkong Tele-In the race to position dia service a range of new itself for the convergence of functions. "Microsoft is

technical support and con- Yesterday's deal allows it to gies with Hongkong combine with Hongkong Telecom," said Mr Gates. Telecom to deliver Hong Kong, where he high-speed broadband ser the new services could be vices of Hong Kong's statevices alliance with Hong- of-the-art telephone network. kong Telecom the territory's In March 1998, Hong Kong Bill Gates, Microsoft chair- dominant telephone service. became the first city in the man, who is due to sign the The deal ; will allow com- world to deliver fully inter- PC. "What Microsoft is get-

test new applications and

The government has qua-

drupled spending on the

small business sector to Won4,000bn (\$3.2bn), includ-

ing providing cheap loans

The goal is to create more

com's interactive multime-As part of the partnership, the PC and TV, Microsoft excited to expedite the convergence of PC. TV and televariety of software as well as cable companies in the US. communications technolo-

Hongkong Telecom said used, for example, by students to access lectures and would enable businesses to train-on-demand using the ting is someone to act as a the project was an important on a one-off basis, download shopping and video on 'betasite' for services it is testing from a technological Analysts said the deal and consumer standpoint," offered Microsoft a high den- said Lloyd Fisher, Salomon More than 40 government more powerful form than 99 sity population laboratory to Smith Barney telecom ana-

# South Korea looks to smaller businesses to lift it from recession and create jobs

John Burton reports the conglomerates, once the engine of the economy, have been replaced in favour by more specialist groups

ates, or chaebol, were once the honoured guests at the Blue House, the presidential mansion. Now it is the turn of small business. At one recent gathering, President Kim Dae-jung was

host to the world's leading makers of tents, motorcycle helmets and nail clippers. "We want to encourage the growth of small business by recognising small Korean companies that are already global leaders," said a presidential aide. The government aims to

encourage competitive niche

players in a nation where ig was considered beautiful until last year's economic crisis, when the *chaebol* were blamed for poor investment decisions. A more balanced industrial structure would reduce the charbol's overwhelming market and financial dominance, while promoting specialised companies with the flexibil- businesses. ity to respond rapidly to global economic trends.

salvation of the Korean among them climbed by a ment of corporate reform is might one day host a Korean economy. There are plenty third to nearly 23,000. "If you a decisive shift in the bal- Bill Gates rather than just of success stories and there were a small business, you ance between the chaebol the world's biggest maker of

The chairmen of South nomic restructuring suchen Marvin, research head Korea's big conglomer-ceeds," said Peter Irving, at Jardine Fleming in Seoul. head of London-based Atlantis Investment Management. which invests in small and medium-sized listed Korean companies. He cites the example of and venture start-up capital.

Medison, a medical equipment company, that has jobs as South Korea's unembecome a leading global ployment rate hits nearly 9

The goal is to create more jobs as unemployment hits 9 per cent

include electronics and phar-These industries, along ing jobs, with the emphasis with food companies, have on developing small busibecome the favourite investments among four foreignmanaged equity funds estab-

sectors for entrepreneurs

Small companies bore the brunt of last year's financial ment's policy does not go "Small business will be the crisis and bankruptcies enough. "The missing ele- their ways, the Blue House will be a lot more if eco-just disappeared," said Step- and small and medium-sized nail clippers.

per cent from less than 3 per systems. Other promising cent a year ago. "Seventy per cent of the budget increase in the first half of this year is devoted to creat-

nesses," said Lee Kyu-sung, the finance minister. Korea's 2.6m small and last year to pump \$1.3bn into already employ nearly 80 per small and medium-sized cent of the nation's workforce.

But critics say the govern-

at failed chaebol rather than small companies," said Jang Ha-sung, a professor of finance at Korea University.

Institutional barriers to the development of small ing system. Despite recent reforms, banks still lack the credit analysis skills to evalnate small businesses and demand substantial collateral for loans. That makes it difficult for entrepreneurs to raise capital.

But analysts are hoping the planned takeover of Seoulbank and Korea First, two of Korea's biggest banks, by HSBC Holdings and a US financial consortium led by Newbridge Capital might change the situa-

The foreign bankers are expected to have a better ability to conduct risk assessment. "The foreign-owned banks will the lead lished by the government medium-sized companies the way in lending to small ean banks will eventually follow suit," said a western

If the banks do change





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jections for economic growth

are more closely aligned jections in than previously, as both Budget, economies are projected to go through a period of slow economic growth in 1999 followed by a pick-up in growth next year.

The government previously cited the misalignment in the economic cycles as one of the main obstacles for

UK membership of the euro. the Maastricht criteria for The Budget's forecast of 1999 growth of between 1 and 1.5 per cent pitches the UK at a level only slightly below many. The forecast of economic growth of between 2.25-2.75 per cent in 2000 puts the UK on the same plateau as the rest of the euro-zone.

With the 1999 Budget, the

UK also fulfils all but one of

membership of the single currency, which stipulates maximum levels of deficits, public debt, inflation and long-term interest rates, and which sets out conditions for exchange-rate stability.

Mr Brown said yesterday: "In line with our golden rule, even under our most cautious assumptions, we are balancing the current

budget over the economic cycle. And for the first time in a generation we are eliminating the current structural deficit

The UK, however, still faces one big qualifying hurdle due to the government's refusal to enter the new exchange-rate mechanism linking the euro to the other European Union currencies. to facilitate future member-Mr Brown argues that ERM2 ship of EMU. some of yester-

required by the Maastricht Treaty. The European Commission and other countries apply a different legal interpretation of the treaty. insisting the UK must enter the ERM2 for two years before joining the euro.

While the UK's macroeconomic performance is likely to facilitate future member-

tax systems and structures between the UK and some other European countries. Mr Brown yesterday hailed a new lower corporation tax rate of 30 per cent as "the lowest rate of any major country in Europe and the lowest rate of any major

industrialised country any-

society

Strategy

launched

to foster

IT-literate

Gordon Brown yesterday heralded an information technology strategy to make Britain a computer-literate, technology-friendly society. The chancellor said the

government would spend £1.7bm (\$2.7bm) to encourage wider use of computers. This aims to allocate £670m to fund a network of up to 1,000 computer learning centres in schools, libraries, colleges and internet cafes. These centres open for un.

to 14 hours a day and at weekends to encourage both children and adults to explore the uses of IT -- Awhole new network of computer learning with one purpose only, that the whole of Britain is equipped for the information age." he said. The government will sub-

sidise computer rental for low-income families and allow workers to use computers loaned by employers without being taxed on them as a benefit in kind. "Anyone left out of the

new knowledge revolution will be left behind in the new knowledge economy, Mr Brown said. "So we will pioneer a system under which local partnerships will be able to loan computers and software in the new century the way local libraries have loaned books in the last century."

The strategy will see 32,000 schools connected to the internet and 370,000 teachers trained to use computers. Teachers will have access to funds of £20m to buy 100,000 computers for home use.

This year's finance bill will also allow for electronic filing of tax returns. The government is modifying its IT systems to enable internet filing of VAT and selfassessment returns by April 2001 and employers' tax

returns by April 2002. Individual Learning Accounts will be expanded to provide tax-free assistance for learning computer skills. Both employers and employees will be able to make taxfree contributions to these

accounts. Tax credits for research and development will be introduced for the first time in the UK next year, as part of the government's drive to stimulate scientific innovation, Clive Cookson and David Pilling write.

The £150m R&D Tax Credit for small and medium-sized enterprises will cut the afterenterprises will be tax cost of research by 12% per cent for profitable companies. It will reduce the immediate cash cost of R&D by 24 per cent for loss-mak-

ing companies. Loss-making companies will receive this benefit instead of the present arrangement, in which they carry forward accumulated losses – often over several years - to write off against

any future profits. In addition, the government will extend first-year capital allowances that allow small and medium-sized companies to write off 40 per cent of capital investment, at a cost of £325m in the com-

The BioIndustry Association said it had long campaigned for an R&D tax credit. The initiative was "excellent news".

ing year.

# CHANCELLOR'S SPEECH LOWEST LEVELS OF TAX IN GENERATION 'Enterprise and

fairness' emphasised

in London

"A Budget for Britain to succeed in the new economy and lead in the new century," is how Gordon Brown, chancellor of the exchequer, yesterday's announcement of monetary and fiscal measures for the

"This is a Budget built on the central idea that our future depends on enterprise and fairness together," he said. In line with its bid to encourage enterprise and innovation along with family life, the government has slashed business and personal taxes to the lowest lev-

els in a generation. The Budget heralded a shake-up in competition policy, new measures to encourage small businesses and tax with inflation measured at breaks for entrepreneurs. "Britain must make a quantum leap in skills, innovation, competition, information technology and small business." said Mr Brown. 'It is wholly unacceptable that consumer goods can take risks are rewarded: 85 still cost up to twice as

The chancellor announced seven major reforms for want to see grow, the very business. He reduced the firms whose growth will crelevel of corporation tax to 30 ate the greatest number of per cent from April, calling it the lowest rate in British history and in any major culties faced by manufacturindustrialised country. The ers from a strong pound and small companies tax was cut global instability, Mr Brown to 20p benefiting 350,000 announced £325m to allow

nesses with profits of up to of all they invest in the com-

### Optimism on growth rates

Britain's growth rate will be between one per cent and 1.5 per cent this year, Gordon Brown, the chancellor, said yesterday, Deborah Hargreaves

Sharp cuts in interest rates by the Bank of England, the UK central bank, have led to government expectations of a robust bounceback for the economy next year. The growth rate will rise to 2.25 per cent to 2.75 per cent in 2000 and 2.75 per cent to 3.25 per cent in 2001. Mr Brown said. British interest rates of 5.5 per cent are now at their lowest long-term rate for 40 years

will be a new starting tax rate of 10p in the pound from April 2000. The legislation is aimed at ensuring those who per cent of the firms gaining from the new rate have fewer than 10 employees -"the very firms we most new iobs".

2.5 per cent.

In recognition of the diffismall to medium-sized busi-For the very smallest busi- nesses write off 40 per cent

Tax cuts for key personnel in high-risk businesses were also introduced along with proposals for an all-employee share ownership scheme. nies investing in research and development would allow them to underwrite up

to a third of their costs. The chancellor also announced measures to upgrade Britain's science and high-tech industries with an additional £100m for the £600m joint infrastructure fund to renew the science capital base and £20m start-up funding for hi-tech venture capital funds. This would be accompanied by a national IT strategy with computers available to all communities across Britain. Environmental measures almed at reducing carbon emissions by 12.5 per cent by 2010 included proposals for an energy levy on business from April 2001 which would cut emissions by 1.5m tonnes of carbon a year. But this only be introduced after widespread consultation with industry. It would also be accompanied by £50m to

technologies. In an effort to help the lower-paid, the chancellor introduced a new 10p rate of income tax for the first £1,500 of earnings from April and a 1p cut in the basic rate of income tax to 22p from April 2000.

encourage businesses to

invest in new environmental

In a bid to assist families. he announced a tax credit for parents to replace the



# Company share schemes boosted

By Jean Eaglesham in London

Employees will for the first time be able to buy shares in their company using their pre-tax salary under a new share scheme designed to build a "democracy for enterprise", the chancellor announced.

However, experts said the tax breaks were not as generous as Gordon Brown had

They also said the plan government's stated goal of on the purchase price when

schemes to all employees. The scheme, which comes into effect next year, allows employees to defer tax but not to avoid it altogether. employee schemes - profit "The chancellor did imply it was more tax-advantaged than it is; it's a benefit, but it's not completely tax-free." said Sarah Hyde, a parmer

at accountants Ernst &

Employees can buy shares from untaxed income but price. was unlikely to achieve the they have to pay income tax doubling the number of com- the shares are sold. Shares

panies that offer share sold within three years will effective discount, by matchalso be subject to capital gains tax The scheme is a hybrid of

the two existing allsharing, in which employers distribute part of their profits by way of free shares, save-as-you-earn (SAYE), in which employees have to save for shares but can buy them at a significant discount to the market

ing any shares bought with up to two free shares. Experts applauded the extra room for manoeuvre

The government has linked the relatively low number of employee ownership schemes in the UK with the country's poor productivity. About 7 per cent of the UK workforce participates in

such schemes at the moment The new scheme will give in contrast to 10 per cent in employers the discretion to the US and 23 per cent in

give their workforce an France.

### A mass of figures adds up to a modest redistribution of wealth pluses and minuses. And chancellor's mind, is the in him is set on changing the chancellor presents himself

Philip Stephens picks through a plethora of Budget measures to find a vote-winning theme of help for the poor and hard-working

l Brown's speech. The pace of growth had slowed but would pick up. Inflation was low and would remain zard of technical detail and so. Public finances were in good shape. The last Budget before the millennium, the chancellor of the exchequerasserted, would leave behind a century of sterile ideological conflicts between right and left. Then it was on to the serious politics.

Mr Brown told us that while the Bank of England sets interest rates and fiscal policy is on automatic pilot. the Treasury has become the engine room of social policy. It promises a fairer society and a dynamic economy. The chancellor sees his task as building a bridge between a fraction over £1bn. the two.

performance. No one quite

there was a criticism of the style, it was that his message was often lost in a blizpopulist wheezes. As corporation tax cuts made way for research and development tax credits, enterprise management incentives and taxfree Individual Learning Accounts, you could hear the accountants cheering.

The numbers - £4bn here. £6bn there - deliberately inflated the immediate changes. Mr Brown could never resist rolling up several years' tax cuts and public spending commitments into one big package. For the record, the net "giveaway" in the next financial year is These are small points.

The assault on the middle classes that many had feared

To blink was to miss the commands the House of and a few had hoped for did economics in Gordon Commons like Mr Brown. If not materialise. It was never planned. Tony Blair's government has elections to win. A 10p income tax rate makes a good campaign pitch. So does a new tax credit for children. And a £100 winter heating allowance for pensioners rich and poor could be worth a lot of votes in elections to the Scottish parliament. The calculation is that the

middle classes can live with the (deferred) abolition of mortgage tax relief and the married couples' allowance. There will be cries of outrage from the moral minority - but Mr Brown is probably right.

This, though, is a redistributive Budget - just as were the two that preceded it. Trawl through the dozens of changes in the Budget Red Book. Add up the rows of

two things are clear. The only way the government culture of our society. The as a friend of the hardfirst is that Mr Brown has paid for cuts in high-profile of the least privileged. The conditions attached to direct taxes with increases in more obscure, mostly indirect taxes. The second is

that, by and large, the changes shift a modest amount of money from the higher-paid to those at the bottom of scale. Thus the new family tax credit will be paid for through increased National Insurance contributions for those near the top of the income scale. Com-

keep the pensioners warm. Some of this represents direct no-strings-attached transfers to the poorest particularly pensioners and families with children. But the main beneficiaries - as chancellor so often the reminded us - are those able and willing to work.

pany car drivers will pay to

Which takes us to Mr Brown's main political purpose; to square the circle of orthodox economics and social justice. Work, in the

can lever up the life chances

the New Deal welfare-towork programme - toughened again for the young in this Budget - provide the stick; a plethora of tax incen-

The Budget on FT.com The Budget measures are covered on the FT web size at FT.com/budget, it is carrying the chancelor's speech to the House of Commons in tuli as well as detailed analysis of his actions and policies by FT commentators

tives and credits provide the carrot. And there lies the importance of the 10p starting rate of income tax. inflation and spending. He is Purists will argue that a a credible guardian of the higher threshold would have nation's finances. been fairer. But that misses the point. What counts for Mr Brown is the demonstration effect - work pays.

among them fit for employment - are to given opportunity. And with it a decent income. But they must be willing to work for it. The question is whether the middle classes, whose views are so earnestly

poor - or rather those

tracked in 10 Downing Street, will buy the package. The answer is a conditional Mr Brown has credit in the

bank. The government's most precious, and for many. unlikely asset is the perception that it is competent to run the economy. Sure, the chancellor may be chipping away at some of the tax privileges of the better-off, but he has kept his word on And there is no hint of

class envy in the redistribution. With tax cuts for small companies and new incen-The Scottish Presbyterian tives for entrepreneurs, the

working rich as well as the deserving poor. That's clever politics as well as sensible All this is conditional. The

present equanimity among the voters of Middle England is built on their own prosperity. Higher taxes slip by unnoticed when incomes are rising, jobs are safe and interest rates are falling.

Mr Brown's economic forecasts are built on optimism. Manufacturing is already in recession. The rest of the economy is perilously close to it. The national mood will change if he is wrong.

Budget-by-Budget, this chancellor is edging in the direction of a new society. But social engineering is a perilous business. Voters are fickle, and one day the Conservatives will present a credible opposition.

BRITAIN

# Enhanced role sought for Entry to euro urged in Rover rescue plan European nations in Nato

should be upgraded to ulti-

mate commander of Europe-

would be rotated.

By Alexander Nicoll, Defence Correspondent

Changes to Nato command structures to give Europe much greater ability to launch military missions without US participation are to be proposed by the UK access to Nato's military government today,

In a speech at the Royal United Services Institute in Mr Robertson wrote in a London, George Robertson. chief UK defence minister. will expand on the European defence initiative launched last year by Tony Blair, the prime minister. He will urge allies to agree on new steps at the alliance's 50th anniversary summit in Washington next month.

Under the proposals, new European Union capabilities should be built within Nato, without setting up a separate EU body or duplicating packages for European-led Nato assets, Decisions to deploy forces would con- ensure they are regularly - would not be excluded.

exercised," according to Mr tinue to be taken by individual governments, not any Robertson. EU or supranational body. The proposals are likely to For Europe to tackle sitube welcomed by other Euroations that do not demand a pean nations, which have full Nato response, "we

long desired a stronger Euroshould build on the provipean defence identity. The sions that allow Europe immediate problem will be France's absence from assets and capabilities for Nato's command structure European-led operations," because of a long-standing dispute with the US. Mr Robertson will argue summary of his proposals, He will suggest that the other European countries need reform their armed ser post of deputy supreme allied commander Europe vices in a similar way to the

crises, and downplaying the only forces. The post, until need for national defence. now held by a UK officer, Javier Solana, the Nato Europe would need to secretary-general, yesterday ensure reliable access to said the alliance was ready Nato resources. "We could for a stronger European role identify a range of European Building it within Nato command options and force would ensure that Nato members outside the EU operations, and take steps to liceland, Norway and Turkey

UK, stressing rapid deploya-

By Haig Simonian in Geneva Werner Sämann, new

chairman of Rover, yesterday urged the UK government to join the euro "as soon as possible", as he set out six priorities to restore the UK subsidiary of BMW to profitability. "We would like to export products, not jobs," he said.

With a high pound, the dan-

ger is that we export jobs."

tor likely to affect its decision on investing in building new models at Rover's Longcentral England.

Mr Sämann focused his fire on performance in the UK, Rover's prime market, where sales and market crucial small family car marshare have crumbled. To

German carmaker is one fac-

The amount of UK govern- announced a push on new ment aid to be made to the products, marketing, quality and public relations. BMW is expected to

announce in its 1998 results later this month that Rover bridge plant in Birmingham, lost at least DM1.5bn (\$0.83bn), based on its conservative accounting standards. As a first step to improve penetration of the ket, Rover will later this

of its slow-selling 200 and 400 models. Mr Sämann said the revised cars, codenamed "Jewel" and "Oyster", would be much more than facelifts. Mr Sämann, an engineer previously in charge of BMW's engine and gearbox operations, said Rover had

BMW's backing to remain a full-range carmaker However, a decision on whether the new models will be built at Longbridge is not

expected until BMW's supervisory board meets later this month. "As chairman of Longbridge, I'm fighting for Longbridge." he said.

Analysts have said Rover would need to build at least 500,000 units a year to justify the heavy investment in a new "platform" - or basic engineering structure - for

Geneva Motor Show, Page 16

# Formula for arms handover goes to Sinn Féin

yesterday met Sinn Fein to propose a way out of the weapons impasse that is blocking formation of a new power-sharing administration in Northern Ireland. The pro-British party told

the political wing of the Irish

Republican Army that the

lished on a simple written assurance that IRA disarma-The Ulster Unionist party ment had started from Canada's Gen John de Chastelain. who chairs the international body overseeing the destruction of illegal arms. The proposal was made by

David Trimble, the Ulster 10-member executive, which Gerry Adams, the Sinn Fein are transferred from the for the transfer of powers of decommissioning."

executive could be estab- president, during a 75- UK parliament in London. minute meeting near Belfast. However, the IRA - which the regional capital. advocates a united Ireland -Mr Trimble said "a limited has given no indication of being prepared to change its amount of progress was made". The UUP has position that there will be no

demanded a "verifiable arms decommissioning. The latest plan envisages a start" to IRA disarmament before Sinn Fêin enter the 3-hour gap to await a fax from Gen. de Chastelain on Unionist leader and the is due to take over running March 29 - the new deadline province's first minister, to the province when powers set by the UK government

and the day executive members are due to be nominated. This would provide a face-saving formula for both It is unclear whether Mr

Trimble realistically believes say Mr Trimble is keen to emphasise the "inevitability

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# Caution in City over **Budget handouts**

### By Philip Coggan and Arkady Ostrovsky in London

the City of London was guarded after the chancellor proved to be more generous with tax handouts and spending increases than most forecasters bad expected.

Economists had been looking for a "neutral" budget with no net handout to taxpayers on the grounds that Gordon Brown would be constrained by the possible effect on public finances of an economic slowdown.

Bob Semple, the BT Alex Brown strategist, said: There is a fair bit of demand management involved. My guess is that the equity market reaction will be positive but gilts will he more suspicious. It looks like there will be a fiscal stimulus of £3.5bn (\$5.63bn) in 2001, a likely election simplicity."

Some saw the Budget as altering the outlook for interest rates with the Bank of England, the UK central bank, likely to react cautiously to the boost to thee of a stimulus. Consequently,

### Tax up by stealth, Reaction to the Budget in Says opposition

William Hague, leader of the opposition Conservative party, accused Mr Brown of being the "pickpocket chancellor," increasing taxes by stealth despite the chancellor's presentation,

writes Deborah Hargreaves. Paddy Ashdown, leader of Britain's third party, the Liberal Democrats, said the chancellor had adopted a "scattergun approach," although he welcomed many of the measures.

The party branded the new 10 pence rate of income tax as an expensive gimmick. Malcolm Bruce, its Treasury spokesman, said: "This Budget means well, but Gordon Brown has put gimmickry and complexity before fairness and

Richard Jeffrey, Charterhouse group economist, said: "I suspect this is going to give the economy too much we will get too strong 21; London Stocks, Page 28 | which feared complicated tax, the chancellor said his

growth later in the year to which the monetary policy committee will be forced to respond by raising rates."

The benchmark 10-year gilt fell by around half a point, pushing up the yield by about 5 basis points. Kevin Adams, gilts analyst at Barclays Capital, said the gilt market could face further weakness, especially at the short end of the market.

Short sterling, the market's vehicle for speculating on interest rate changes, fell on the back of the Budget, indicating that traders thought the chance of further rate cuts had been reduced. However, the contract still indicates the possibility that base rates will fall from the current 5.5 per cent to 5 per cent by September.

The equity market reacted rather better, with certain stocks and sectors benefiting from the expected boost to consumer spending. The FTSE 100 index, which was about 9 points ahead before Mr Brown began his speech, ended 28.9 points higher at

Lex, Page 14; Currencies, Page

# Cut in corporation tax wins welcome

Measures send clear signals that feared reforms of tax and avoidance rules are to be dropped, writes Jim Kelly

small and big business I in the Budget with a new 10p corporation tax starting rate for 270,000 growing companies and clear signals that much feared reforms of capital

As expected the chancellor trumpeted already announced cuts in corporation tax to 30p - and 20p for small companies - but in a surprise move introduced a 10p rate for companies with taxable profits up to £10,000,

rules are to be ditched.

tapered up to £50,000. The chancellor took the opportunity not only to draw avourable comparisons with the UK's main economic competitors but also to hint that more good news might be on the way for industry: "For the life of this parliament the rates will be 30, 20,

and 10 or lower." But there was much better news for large companies buried in the government's background statements to the chancellor's speech. Wholesale reform of capital gains tax for companies has been dropped following an angry reaction from industry

here was good news for changes mirroring those for personal capital gains.

And the Treasury also gave the clearest hint yet that it may drop plans to introduce a General Anti Avoidance Rule (GAAR) authorities power to stop gains tax and avoidance transactions constructed to limit tax bills.

> bring in a GAAR "if more targeted legislation proved ineffective" - "but the goverament would not be proceeding with a GAAR in this Budget or with a mini-GAAR for VAT on construction ser-

vices". "Big business will be extremely relieved - this is wonderful news," said lan Barlow of KPMG. "CGT reform would not have worked and the GAAR could have undermined many ordinary commercial transac-

"We are delighted with the announcement on the GAAR it looks like a signal that they will quietly drop it in the longer term," said Douglas Fairburn, head of tax at Ernst & Young.

On personal capital gains

designed to reward long bought in to prevent compaterm commitment with a 10p rate. He announced that by April 1 the first £7,100 would be free of CGT. "This measure will exempt 10,000 more people from CGT altogether." he said in a fillip for

In another measure which will particularly help owners which would give the tax of family businesses, the chancellor raised the threshold at which inheritance tax at 40 per cent bites to The chancellor said it £231,000 from £223,000 remained an "option" to although stricter measures for hitting avoiders will be brought in and loopholes

small businesses.

As usual, the Budget contained a raft of specific measures designed to tackle corporate tax avoidance. "The budget included a ragbag of specific avoidance measures. At first sight the VAT grouping changes look less draconian than feared," said Paul George, tax partner at PwC.

 Existing rules will be extended to stop artificial techniques designed to strip value our of subsidiaries prior to their sale to avoid Loopholes in the rules for

Other measures include:

North Sea corporation tax and petroleum revenue tax which could be exploited by the sale and leaseback of nies avoiding tax by channelling UK dividends via controlled foreign companies

(CFCs). • Legislation will be introduced to tax sums paid by landlords to induce tenants to take out a lease - so-called "reverse premiums". While the use of these was widespread when property values

collapsed in the 1980s they are far less frequently used A whole range of antiavoidance measures to protect VAT will be introduced including measures targeted on construction services. Wholesale reform of the laws covering VAT Groups which allow related companies to rationalise their pay ments - appears to have been sidelined after widespread opposition, but lim-

ited reforms are proposed. The government confirmed it is to close a loophole which allowed UK companies to avoid paying Stamp Duty Reserve Tax in mergers or acquisitions involving foreign currency bearer instruments. Other aspects of the SDRT regime

onal £250m in a full year. IPT applies to motor, property, travel, and extended warranty policies. But it is

are to be tightened up.

### Tax relief plan for intangible assets

By Alan Cane and Kevin Brown

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The government plans tax relief on the costs of buying licences to offer the next generation of mobile phone services in a move with significant implications for capital investment in intellec tual property.

Under current legislation the cost of a mobile phone licence would not qualify for capital allowances because it is defined as an intanzible asset. Now the chancellor is proposing to offer tax relief over the 20-vear life of the licences. Legislation will be introduced in 2000.

The government is planning to auction four or five licences for the next genera tion of mobile phones early next year with the aim of raising a minimum of £1.5bn (\$2.4bn) for the state.

tax partner at PWC, said the UK was lagging behind other countries in the treatment of intangible assets. Ms Jackson said US companies, for example, could acquire such property in the UK and then write it off against profits in

### **NEWS DIGEST**

### **ENVIRONMENTAL REFORMS**

### **Energy tax expected to** raise minimum of \$2.8bn

An energy tax on business, as part of "the largest and most radical package of environmental tax reforms ever announced in this country", was announced yesterday among the Budget measures by Gordon Brown, chancellor of the exchequer. The tax is expected to raise at least £1.75bn (\$2.8bn) in its first full year. Mr Brown promised "significantly lower rates of tax for energy-intensive sectors that improve their energy efficiency. Energy-intensive sectors are being asked to come forward with proposals, which may include trading in carbon "permits".

Mr Brown said that the government was implementing the recommendations made by Lord Marshall, the chairman of British Airways, who led a government taskforce on the business use of energy last year. The chancellor said the energy tax would cut carbon pollution by 1.5m tonnes, as part of a programme of measures announced in the Budget that would together cut carbon pollution by 3m tonnes. Vanessa Houlder, London

### TOBACCO DUTY

### Increase disappoints industry

The immediate 17.5p increase on the price of 20 ciga means that a pack of 20 sold in the UK will cost £3.82 (\$6.15) compared with £1.98 for a similar pack in France, the UK Tobacco Manufacturers' Association said yesterday. Mr Brown said the government would continue increasing tobacco excise by 5 per cent above inflation.

While tobacco smuggling may be costing £1.5bn in lost excise each year, this could not undo a policy on cigarettes for "good and urgent health reasons", the chancellor said. But cigarette manufacturers who had hoped for a duty cut said the government had failed to recognise that high tobacco taxes were actually causing smuggling.

The Scotch Whisky Association was disappointed that tax had not been cut to help reverse the slide in UK whisky sales, saying there had been a drop in the UK market of around 7 per cent mainly "because shoppers are going overseas to France to buy cheaper whisky".

### MOTORING AND FUEL

### Tax cut on smaller cars

Unleader petrol will rise by 3.79p a litre, taking average orices up to around the 67p a litre mark - about £3.04p (\$4.89) a gallion. Leaded petrol goes up 4.25p a litre to around 74.4p a litre; diesel rises 6.14p a litre to nearly 71p a litre. The annual car tax disc will be reduced by £55 from the current £150 for smaller cars from June 1. The rate for other cars will rise by the level of inflation. Mr Brown said the duty would be frozen for 98 per cent of all trucks, and the licence fee cut by up to £1,000 for trucks and buses with clean engines. He also announced a reform of company car tax to encourage the use of fuel-efficient cars. This reform, he said, would cost the typical user about £1 a week. To cut pollution, employees will be able to get tax-free benefits from employer-run or employersubsidised buses, car-sharing schemes and other environmentally-friendly means of getting to work.

### **FILM INDUSTRY**

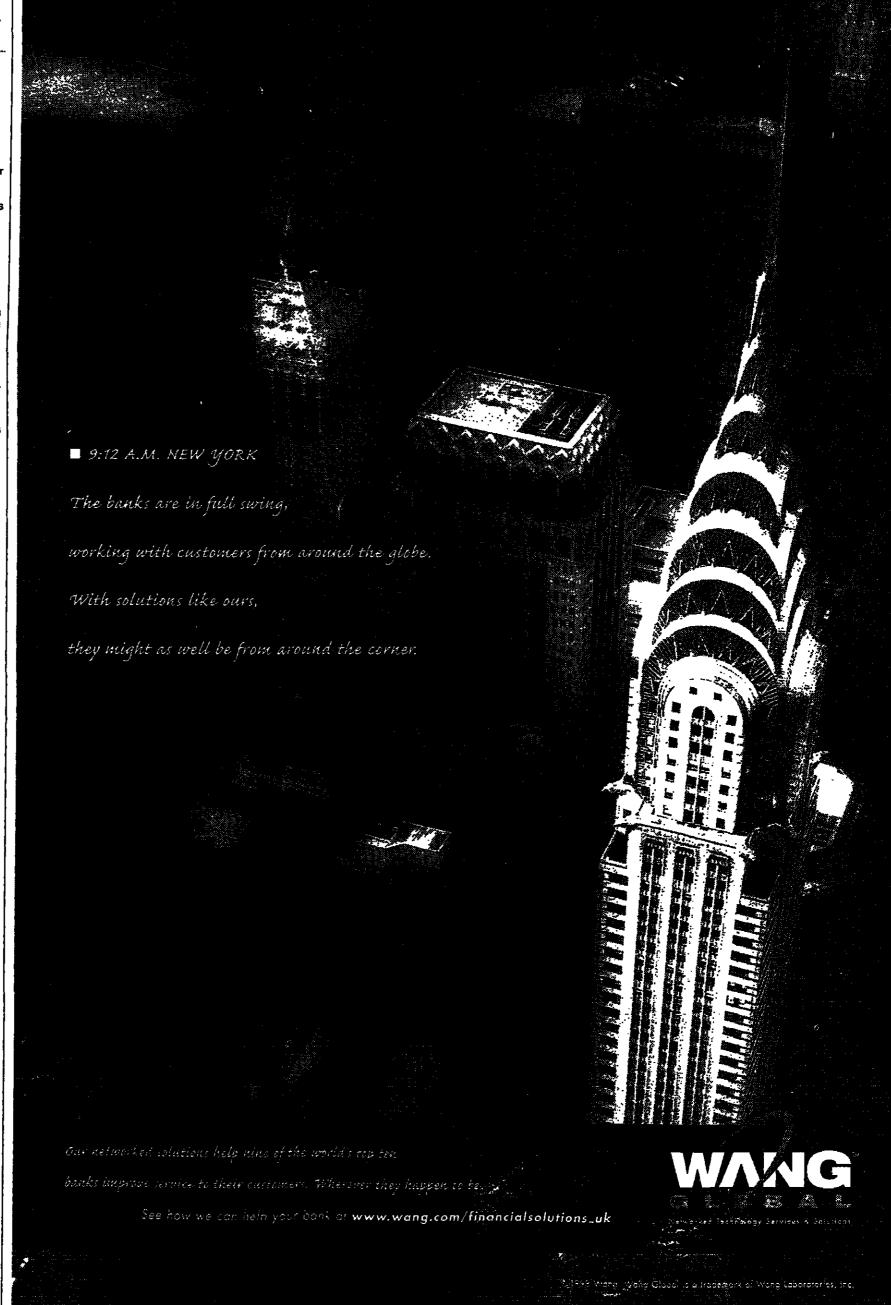
### **Extended tax break welcomed**

The news that Mr Brown intends to extend the tax allowance available for new films made in the UK for another two years until July 2002 was welcomed by the film industry. Mr Brown originally unveiled proposals for film makers to write off against tax the production or acquisition costs of UK-made pictures with budgets of up to £15m in his first Budget in 1997. After a delay while the government completed paperwork, the tax breaks have proved extremely popular with film makers at a time when the UK production sector has been bedevilled by economic obstacles, notably the strong pound. Alice Rawsthorn, London

### INVESTMENT TRUSTS

### Buy-back rules set to ease

The government yesterday moved towards relaxing restrictions on investment companies buying back their shares, with the publication of a consultative paper. Investment trust companies will be able to use capital profits to buy back their shares without having to renounce their trust status under changes proposed. Under a law of 1985, investment companies may only use "revenue profits" such as dividends and other investment income to repurchase their own shares, rather than use capital profits from increases in the value of their investments, lan McCartney, an industry minister, said the existing system was "unnecessarily restrictive". Jane Martinson, London



# Worm at the heart of the blossom

Two US scientists have joined the attack on the speed and scale of agriculture's genetic revolution, says Vanessa Houlder



AGAINST THE GRAIN The genetic transformation of global agriculture

Marc Lappé and Britt Bailey Common Courage Press S14.95

Opposition to genetically modified food has been relatively muted in the US. But last week two Californian researchers published a vig- one or two growing seasons. orous attack on the speed what has been an ecological and scale of the revolution.

Their book's message is that the genetic revolution in agriculture has not been accompanied by sufficient to far greater reliance on a consideration of long-term small number of herbicides. concerns. The authors, who work for the Centre for lators have overlooked the Ethics and Toxins in north- potential residual toxicity of ern California, argue that an important breakdown GM crops are being intro- product that could enter the duced on too large a scale, human food chain. too quickly and with too

little oversight. Lappé, a pathologist who co- the activity of a gene that wrote the book with Britt makes critical amino acids Bailey, an environmental may, in addition to conferscientist, is the growing ring resistance to a herbipower of a few agrochemical cide, change the plant's companies, perpetuating the metabolism, creating bytrend towards monoculture. products called isoflavonin which a single variety of a oids. These have similarities crop is grown on a vast with an important set of

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This could have severe consequences for genetic diversity, increasing the risk of epidemics which - as the 19th century Irish potato likely to occur among genetically uniform food crops. The need to maintain

genetic diversity makes a case for setting aside a percentage of global crop acreage to house non-engineered seeds. Mr Lappè says. The authors are also anxious about the "shortsighted" overuse of particular GM crops. They say it "is

reminiscent of the early days of the antibiotic revolution", when antibiotics were put to relatively trivial uses that resulted in the emergence of antibiotic-resistant strains. Their concerns are focused on crops engineered to produce a toxin called Bt (Bacil-

hus thuringiensis), which controls insects while greatly reducing the need to use pesticides. They fear that overuse will make insects tolerant of the toxin, which is widely used by organic farmers. "Over time, perhaps just miracle may become an ecological disaster," they argue.

The book also argues that the GM revolution will lead In one case, it argues, regu-

The authors have other worries about the health One problem, says Marc risks of GM foods. Boosting human hormones called phy-

283

implications for soy-based dairy foods – and particularly baby milk formula.

Mr Lappé says his work suggests that, if anything, levels of phytoestrogens are lower in genetically engineered varieties than in conventional varieties. "It can cut both ways," he says. But it underlines the case for assuming that there may be differences between GM crops and their nonengineered counterparts.

He argues for a "wholesale review of the regulation, testing and inspection of all engineered crops". The fail-ure to label GM foods is the "ultimate foolbardiness" because it makes it impossible to track transgenic crops in the food chain for possible adverse effects.

The perception that the US regulation system is tough is wrong, he says. The interaction of the Department of Agriculture, the Food and Drug Administration and the Environmental Protection Agency creates a regulatory "patchwork quilt" in which each agency

can duck responsibility. In this litany of concerns about regulation, there might be a risk of understating the potential benefits of genetic engineering. Perhaps the most powerful argument of the technology's proponents is that it offers a promising approach to feeding a growing world population while reducing

damage to the environment.

Mr Lappé agrees there is a need for a generation of more productive crops, but says agrochemical companies have so far developed fewer of these crops than their rhetoric suggests. The problem, he says, is that short-range economic considerations have driven the selection of genetic products. rather than choices based on long-term objectives or public benefits.

Mr Lappé admits to some philosophical qualms about GM crops. But he insists that he is arguing for more public accountability and control, rather than outright rejection. "This isn't a book of blanket opposition to the technology. There might be real advantages. But there are legitimate questions to



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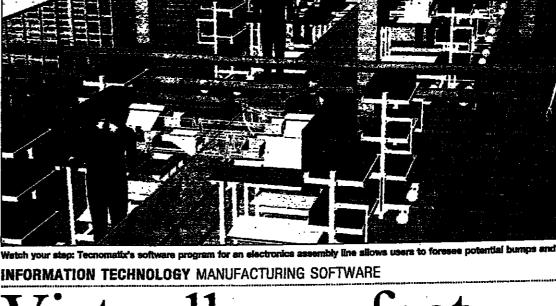
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# irtually perfect

Electronics manufacturers are borrowing from motor industry experience to get production right first time, writes Avi Machlis

manufacturers in the electronics industry. where new products are d every few months, to think about changes to production and design pro-

But in recent months 10 Bosch of Germany and Nokia of Finland, have started experimenting with virtual manufacturing software that has already made a big impact on the automotive industry. These technologies allow companies to build realistic threedimensional simulations of factories, eliminate potential production errors and save precious time in the hectic race to market.

"The manufacturing industry, and electronics [in particular), are looking for ways to accelerate time to market and optimise end-toend process chains," says Bruce Jenkins, vice-president of Daratech, a Bostonbased market research firm design, manufacturing and engineering industry (Cad Cam/CAE). "They are begin-ning to wake up to the opportunity that exists in the manufacturing and pro-

duction engineering area." Cad technologies are

It is often difficult for duction is also widespread. But in recent years, Deneb, a US subsidiary of Dassault Systèmes, Electronic Animation of Iowa and Tecnomatix of Israel have introduced Cape, or computer-aided production engineering. Dassault and EA are still focused mainly on the autolarge electronics companies, focused mainly on the auto-including Toshiba of Japan, motive and aerospace industries, while Tecnomatix is leading the way into the

electronics industry. Tecnomatix hopes for a boost in its drive to penetrate new markets from Parametric Technology (PTC). the Massachusettsbased company that is the biggest in the mechanical Cad Cam market. PTC announced yesterday at an industry conference in Chicago that it will integrate Tecnomatix tools into its Windchill suite of software for management of product

and process life cycles. Cape enables companies to streamline design of production processes, for example, building threedimensional computer simufor the computer-aided lations of assembly processes and production lines. complete with super-realistic images of rolling conveyor belts, robots and even human workers.

The Cape concept is to pinparts that do not fit. In the were caught only after costly trial and error.

Many electronics companies have already invested heavily in Cad, Cam technologies. Some have even introduced Cape technology for planning printed circuit boards. Until now, though, the planning of manufacturing has usually been worked out by hand or using tools developed in house.

Harel Beit-On, Tecnomatix chief executive, says: "We recognised the same pattern

The concept is to pinpoint problems such as colliding robots or parts that do not fit

that we saw 10 years earlier in the automotive industry there was something missing in the middle [between product design and manufacturing)."

Electronics companies will find it hard to ignore the benefits reaped by many car manufacturers. For example. Nissan, the Japanese carmaker, is cutting its new point problems on screen, product cycle from between such as colliding robots or 20 and 25 months to 12 months with the help of industries. Automated pro- past many of these mistakes Dynamo, a Tecnomatix pro- learning a product."

gram for assembly processes. Mr Jenkins says: "I have no reason to think that the benefits won't be equally big, potentially, for the elec-

ammui

tronics industry Initial reaction from electronics groups has been posttive. Toshiba has cut the moulding process of laptop computer casings from 32 to 24 days using Valisys, a Tecnomatix tool for testing product tolerances.

Silicon Graphics, the US manufacturer of high-performance computers, is confident that Tecnomatix will help it improve time-tomarket and yield. "The systems are very graphical and use simple concepts,' says a Silicon Graphics engineer. "It's also intuitive and simulates the factory experience." Amid the enthusiasm, bowever, an engineer at one company noted: "It's expen-

While most car manufac turers have large specialised engineering departments, electronics companies are often far less centralised. To cater for this difference. Tecnomatix has redesigned its tools to work on Windows NT operating systems instead of Unix, and a new product line, Tune, will be released in the next few

Amir Livne, Tecnomatix vice-president of marketing, says: "We wanted to meet the needs of those who don't



PAUL TAYLOR IN LONDON VIEWPOINT@FT

# Route towards a third way

A new model promises cheaper internet access as service providers are encouraged to abandon subscription charges

The cost of accessing the internet has typically comprised two elements for dial-up consumers: a monthly subscription charge payable to the internet service provider and the per-minute cost of a local telephone call payable to the elecoms provider.

Two main business models have emerged: the North American one in which most local calls are free but internet users pay a relatively high monthly subscription charge; and the traditional European model in which monthly

subscription charges are relatively low but local call costs are high. Now, however, a distinct third model has emerged in the UK, where Dixons' nuccess with Freeserve, its subscription-free service, has spawned lookalikes and

charges. Freeserve has managed to attract 1.3m users (one in five UK internet users) since its launch in September, far outstripping the wildest estimates and making it a

encouraged a number of

existing ISPs to abandon

their monthly subscription

focus of interest.
On the face of it, Freeserve and its rivals represent an interesting alternative for consumers tired of paying a flat monthly subscription fee that ranges between £7.50 and £15 (\$12 and \$24) a month, together with per-minute connection costs.

But as Eckard Pfeiffer, Compaq's chairman, reminded us recently, there is no such thing as a free lunch. Freeserve and its rivals plan to recoup their costs through advertising and revenue-sharing with the telecoms provider that connects the local call, for which users continue to nav

Dixons expects Freeserve to break even next month, six months earlier than planned. In the meantime, however, the success of the model has forced telecoms providers and ISPs to re-assess their options.

Just how readily the subscription-free model can be transferred outside the UK will depend on local market conditions and national regulator environments. There are already similar services in France and Germany, and NetZero has set up a subscription-free service in In the UK one of the more

reactions came from British Telecommunications, which told Oftel, the UK telecoms regulator, that it should be allowed to keep a higher proportion of the local call charges paid by subscription-free internet users. Simultaneously, BT removed the Ip-a-minute charge it was making for its own internet access service.

bizarre – and greedy ~

Some leading independent ISPs in the UK believe they will be able to continue to harge monthly subscriptions for advertising-free, high-quality internet access and will hoost their revenues by

offering other services. But others are already preparing to jump ship.

INFORMATION TECHNOLOGY The FT's review of Information Technology appears on the first Wednesday of each month

As noted by Philip Lakelin, one of the authors of a report from Cambridge-based Analysis on competitive strategies for independent ISPs, independent ISPs face a rough ride over the next few years as competition intensifies in the rapidly expanding worldwide market

Independent ISPs occupy a precarious position in the internet supply chain, acting as intermediaries between the owners of the transmission networks over which internet traffic flows and the owners of content on the web. Maintaining this position requires them to compete in both the infrastructure business and

for internet services.

the service-supply business. Mr Lakelin says: "Over the ext five years independent ISPs will find themselves increasingly required to juggle the requirements of these two different business Aside from the threat

posed by subscription-free services, independent ISPs face growing competition from the established telecoms operators, while on the services side companies such as America Online and Yahoo! are redefining themselves as portals and shifting their main source of revenues away from basic access towards content-related services. This suggests that with

access margins continuing t be squeezed, dial-up access providers that fail to achieve at least 300,000 subscribers are unlikely to survive in the long term and that a much larger subscriber base will be required for ISPs relying heavily on advertising.

In the meantime, the regulator agencies, should help foster competition by ensuring that telecoms services are "unbundled" and that dominant telecoms providers are unable to use their market might to crush their much smaller rivals.

At first sight, fixing the Year 2000 computer date problem is a no-win exercise. At best it leaves an organisation just where it started, able to continue its operations. But it need not necessarily be that way.
A study by PA Consulting

confirms that anticipating the millennium bug has created significant disruption and taken resources away from creating value-added IT for organisations. However, the study also

uggests that some organisations have seized the opportunity to revitalise the deployment of IT within their business, "It is a golden opportunity to upgrade, upskill and gain competitive advantage from IT," the financial controller of a manufacturing company told the researchers.

Many companies have seized the opportunity to accelerate new investment in IT systems and infrastructure, replacing ageing networks and nhancing systems.

The respondents, all of whom worked for Organisations with annual turnover of more than £150m, also noted that Working relationships between business managers and the IT department improved, that resources are being managed better and that the importance of aligning IT to business requirements through an IT strategy has been reinforced.

paul.taylon@FT.com This column appears fortnightly.



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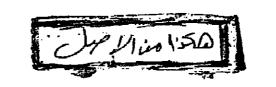
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glossy parade of visiting

novelty once in while.

snazzy locales. Take, for

ex-Kapellmeister Kurt Masur.

at Lincoln Center. A long and

ensembles, representing cities

wends its competitive way to

from Atlanta to Zurich, annually

Carnegie Hall. The guests play a

lot of high-powered Tchaikovsky

and Mahler and, like the resident

orchestra, even venture a dutiful

But, as is so often the case in

musical New York, some of the

most interesting events occur

under modest auspices in less

example, the imaginative Eos

**NEW YORK THEATRE** 

in the new revival of Irving Ber-

lin's musical Annie Get Your Gun

caused some consternation when

Surely a star known primarily for

her creamy skin, hourglass figure

and lyrically pure interpretations

of Stephen Sondheim could not

fit comfortably into the rough

buckskins of the Wild West

The complainers, so aware of

the mark that Ethel Merman put

on the part at its premiere in

1946, seemed to forget that Annie

Oakley as written need not be all

brass and sass. Both Judy Gar-

land, who was fired from the

movie version, and Betty Hutton,

who replaced her, oozed the kind

of vulnerability that Peters is

By trying to etch a

wounded Annie, the

show is robbed of its

known for, and Barbara Stan-

wyck, who played the real-life

markswoman in the 1935 film

Annie Oakley, also suggested

that the character could be more

In the Marquis Theatre revival.

however, the problem is not

Peters's softness, so endearing in

songs like "Moonshine Lullaby".

but the pacing of her perfor-

mance. She succumbs so quickly

to the charms of Frank Butler.

her rival and erstwhile colleague

in Buffalo Bill's Wild West Show,

that we are deprived of the satis-

fying conclusion that sparring of

a more Beatrice-and-Benedict

nature would provide. By trying

to etch a psychologically wounded Annie, Peters robs the

show of its surefire charms,

which to ignite must concentrate

Where Peters excels is in vocal

technique and comedy. She hits

her high notes as confidently as

her character picks off pigeons.

She mines laughs from moments

that are not obviously exploit-

able: by sounding out the letters

of Frank's name as she learns to

read; by addressing the Sioux

on less analytical qualities.

than a rifle-toting tomboy.

psychologically

surefire charms

sharpshooter Annie Oakley.

was announced last year.

tends to Brahms and Beethoven

concerts. The venerable New

York Philharmonic, under the

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Cupido, Mar 14 au. # · · · }.**v≠** ·•·· · · · 98 (a) (200 **₩**:1 ्र अन्तिकार

In a less-than-snazzy locale Martin Bernheimer experiences the Eos Orchestra's 'Out There' Music, including its latest commissioned piece, 'Dracula' Orchestra, a rather youthful not-so-little band that specialises in paying tribute to neglected masterpieces - and

demi-masterpieces, too. Formed in 1995 by Jonathan Sheffer, an enterprising conductor who brings a composer's sensibilities with him to the podium. Eos plays most of its concerts in the churchly auditorium of the Society for Ethical Culture on Central Park West. An uplifting message is emblazoned on the wall behind the performing area: "The Place Where People Meet To Seek The Highest Is Holy

Ground. In the past, Sheffer and friends have deftly balanced lofty ideals against practical limitations, offering sophisticated performances within a casual milieu. The tone was pervasively

serious when Eos examined the

then replying that he is a "swol-

Even this sublime silliness.

however, is problematic. Each

time Peters does a slow burn she

adds to the sluggish pacing that

is the production's main detri-

ment. And each time her direc-

tor, Graciela Daniele, allows her

to re-tailor a jaunty song like "I

Got the Sun in the Morning" as a

doleful ballad she only adds to

In the second-act number "An

Old Fashioned Wedding", we do

glimpse how marvelous Berlin's

material can be. The peacock-

proud Frank, quite dashingly

played by Tom Wopat, insists

that his and Annie's nuptials

stay simple. Annie craves osten-

tation. As he refuses to budge,

she mocks his position, dancing

around him and miming post-cer-

emonial rice-throwing. They

engage in repartee with a quick-

silver lightness one would like to

As for their colleagues onstage.

they at least look their parts.

Ronn Carroll, double-cast as the

innkeeper Foster Wilson and the

impresario Pawnee Bill, resem-

bles Louis B. Mayer and evinces

that Hollywood mogul's brand of

benign imperialism. Ron Holgate.

as Buffalo Bill, is suitably impos-

ing. And Gregory Zaragoza. as

Sitting Bull, amusingly mocks

this musical presents Indians in a

ridiculously outmoded fashion,

the producers enlisted the old

Broadway hand Peter Stone to

rewrite Herbert and Dorothy

Fields's book. He trimmed a rac-

ist song and the most offensive

dialogue, and updated several ref-

erences, including a hilarious

section about many tribes' late-

20th-century predilection for

opening gambling casinos on

But neither scattered comic

pleasures nor the fluid delivery

of some of the show's profuse

array of standards can compen-

sate for a misconceived central

performance and direction so

clueless that, in the evening's

worst moment, disco-ish dry ice

wafts onstage during the peerless

lament, "Lost in His Arms". This

their reservations.

white man say: Ugh.

the white man's every folly.

transfer to their other songs.

the enervation.

len-headed cham-peen".

Annie loses her

The casting of Bernadette Peters expertly after Frank insults her,

ammunition

and Alexei Haieff, the diverse compositions that have inspired the choreography of Merce Cunningham, and the changing faces of musical Americana as embodied by Gershwin, Copland

forgotten neuvre of Paul Rowles

there" is an example of adjectival slang, referring to something unprecedented, beyond accepted norms." The selected vehicles by Charles Ives. György Ligeti, David del Tredici and (are you ready?) Spike Jones

The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from darkest Transylvania

Virtuosic spoofs enliven New York music

and Bernstein. There was nothing solemn, however, about the eclectic programme splashed across the platform last Thursday night. The event bore a title: "Out

There" Music. Sheffer likes

to the impresario-boss, "out

didn't prove quite as innovative, as important or as stylistically independent, as one might have hoped. The concert did. however, turn out to be engaging. And, more important, perhaps, much of it was funny. In the dour descriptive catch-alls. According world of orchestral experimentation, one must be

grateful for small favours. Ives' Three Pieces for Theater Orchestra invoked sonic landscapes from the turn of the century, terse tongue-in-cheeky demonstrations of what can happen when an iconoclast allows himself to march in several directions at once to the lusty clashes of disparate drummers. Ear-stretching remains a healthy exercise, even though Sheffer and his orchestra delivered the trash goods rather

Their penchant for delicacy oved more useful in "Mysteries of the Macabre." a conflation of several arias sung by Gepopo. Chief of the Secret Police, in Ligeti's fabulous opera of the absurd, Le Grand Macabre (1978). In an inspired flight of perverse anti-typecasting, the composer assigned the parodistic

showpieces to a coloratura soprano. The stratospheric diva in drag chirps intricate bursts of filigree that could cause a Queen of the Night or Zerbinetta to tremble. The juxtaposition of otherworldly abandon and grotesque elegance creates a nice tension, a classic example, if you will, of the Ligeti-split personality in excelsis. Ilana Davidson surmounted every impossible vocal hurdle with

charming ease. The big premiere on the agenda took the sprawling, arch and rather inconsequential form of Dracula, commissioned by Eos from David del Tredici. An amiable spoof of yesterday's borror-film clichés it can hardly withstand comparison with the composer's limpid, bittersweet evocations of Lewis Carroll. Alfred Corn's vampirical text

and, for better or worse (probably worse), Del Tredici allows his soon-to-be victimised protagonist to spend a lot of time speaking and only a little time singing. This ludicrous "Liebestod" is outfitted with background busy-music and embellished with quaint sound effects. Wendy Hill brought panache to the meanderings of the sacrificial heroine. The composer took his bows flourishing a black and scarlet cape, no doubt imported for the occasion from deepest, darkest Transvivania.

leaves no room for introspection,

Sheffer closed the festivities with three virtuosic spoofs from the rude pen of Spike Jones. low-brow relics of the daffy 1940s intent on demeaning high-brow hits. There was a burping medley billed as "A Goose to the Ballet Russe," a buzzing-Bizet deconstruction called "Car Men," and "Shhi Harry's Odd," which translates, of course, as "Shéherazade." Everyone went home chuckling

**OPERA IN MONTE CARLO** 

# Two bites at the cherry

The only part of L'amico Fritz Cav's gutsy drama and crude most opera-lovers know is the musical style, Mascagni was keen Cherry Duet, Mascagni's most to show how cultivated a comdelectable music certainly asks for an encore, but the way it got one at this performance must be unique. The occasion was the Sunday matinee at the Opéra de Monte Carlo, the second of just three performances of a new production of this rarely staged It was about two-thirds of the

way through that number that the unthinkable happened. Angela Gheorghiu lost her place and for a minute or so she and the orchestra persevered down different paths. Finally, conceding that 70 musicians and a conductor cannot be wrong, she stopped and proposed an action replay of the duet from the beginning - something I have never witnessed before in 30 years of opera-going.

Everybody hastened to put a good spin on it. The orchestra hurriedly flicked back through their pages. The prompter, possibly fearing retribution, redoubled his efforts and turned the rest of the duet into a trio. As the singing had been so beautiful, nobody seemed to mind. All the same, I would not recommend that she repeats the trick at La Scala, Milan. Italian audiences are known to gobble up faltering sopranos as an antipasto. As the two principals account

idea to hire singers who will pull Gheorghiu and Roberto Alagna caused a rush for tickets that must have made the annual Grand Prix look positively sedentary. Over the past couple of years the husband-and-wife team to another on a jetstream of controversy. A succession of public stand-offs with producers and managements culminated in their now-famous joint sacking from the Metropolitan Opera in New York. "Les enfants terribles de l'opéra" screamed a cover story on a leading French music magazine on sale at the airport. Still, as the fresh young lovers of Mascagni's opera, they could not have been better cast.

The great virtue of L'amico Pritz is that it is not Cavalleria rusticana, the much more famous opera that preceded it. In place of Richard Fairman

poser he could be and the conversational delicacy of much of this next score is skilful and elegant, especially in the Cherry Duet.

To put this little incident behind them, both went on togive 110 per cent. Alagna, returning to a theatre where he made some notable early appearances. sang with ardent tone to make a near-ideal Fritz. Gheorghiu's Suzel may have lacked Latin warmth, but she knows exactly how to colour a phrase and there are signs the voice is growing bigger and stronger. Mascagni

It was about two thirds of the way through that number that the unthinkable happened

barely gives the rest of the cast a look-in, but Anna Bonitatibus. seized her brief opportunities as Beppe and Lorenzo Saccoman did what was needed as David Cupid's match-maker.

The conductor, Evelino Pido. gave a flaming performance of the Act 3 Prelude, but fortunately for almost everything in the managed to keep his cool when opera that matters, it is a good his leading lady demanded that he stop the show and start again. in a crowd. At Monte Carlo The other big interest of the production was seeing the work of the other half of the Alagna cooperative, designers David and Frederico, Roberto's brothers, At this point the management of the Metropolitan Opera has to stifle a has flown from one opera house chuckle, as it brought down the guillotine when Roberto tried to suggest that his brothers take over La traviata in preference to the Met's choice, a certain Franco Zeffirelli. In the event, the sets for L'amico Fritz were solid and

By the end there was plenty to be thankful for. The curtain fell to enthusiastic cries of "Bravi!". "Roberto!", "Angela!" - everything except "Encore!" - but then we had heard the hit number twice already.

### chief who has adopted her as "Papa Bull", by pausing ever so Brendan Lemon INTERNATIONAL

# Arts Guide

### BERLIN

**OPERA** Deutsche Öper Tel: 49-30-34384-01 Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Gunter Kramer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar, Mar 11, 14

BOLOGNA OPERA Teatro Communale Tel: 39-51-529999 La Cena delle Beffe: by Giordano. Conducted by Bruno Bartoletti in a revival of Liliana Cavani's staging, first seen in Zurich four years ago. The cast is led by Daniela Dessi and Alberto

**CHICAGO** CONCERTS Orchestra Hali Tel: 1-312-294-3000 www.chicagosymphony.org Chicago Symphony Orchestra: conducted by James Levine in Mahler's Symphony No. 3. With mezzo-soprano Michelle DeYoung, women of the Symphony Chorus and the Glen Ellyn Children's Chorus; Mar 11.

Lyric Opera of Chicago Tel: 1-312-332 2244 www.lyricopera.org Die Meistersinger von Nürnberg: by Wagner. Conducted by Christian Thielemann in a staging by Kurt Horres, with designs by Andreas Reinhardt, Mar 10, 13

DRESDEN **OPERA** Semper Oper Tel: 49-351-48420 Ariadne auf Naxos: by R. Strauss. Conducted by Colin Davis in a new staging by Marco Arturo Marelli. Cast includes Susan Anthony and Jon Villars; Mar 14

EDINBURGH CONCERT Queen's Hall Tel: 44-131-668 2019 Scottish Chamber Orchestra: Andrew Litton conducts the world premiere of Robin Holloway's Double Bass Concerto, performed by Duncan McTier. The programme also includes works by Dvorák and Schumann; Mar 11

LAUSANNE **OPERA** 

Opéra de Lausanne, Théâtre Municipal

Tel: 41-21-310 1600 Dido and Aeneas: by Purcell/ Curley River, by Britten. Double-bill conducted by David Stem, with the Purcell staged by Marcel Bozonnet and the Britten by Yoshi Oida; Mar 12, 14

LONDON CONCERTS Royal Festival Hall Tel: 44-171-960 4242 City of Birmingham Symphony Orchestra: conducted by Simon Rattle in Nicholas Maw's Odyssey; Mar 15 London Philharmonic Orchestra: conducted by José Serebrier in a programme including works by Stravinsky, Piazzolla, De Falla and Rodrigo. With guitar soloist Slava Grigoryan and castanets soloist Lucero Tena; Mar 12 Philharmonia Orchestra: conducted by Christoph von Dohnányi in Mahler's Symphony No. 9: Mar 13

MILAN EXHIBITION Palazzo Reale Tel: 39-02-8691 5738 L'Anima e il Volto: (The Soul and the Face): major exhibition of portraiture, comprising 370 works ranging over 400 years; to Mar 14

MUNICH CONCERTS Philharmonie Gasteig Tel: 49-89-5481 8181 Bavarian Radio Symphony Orchestra: conducted by Lorin Maazel in works by Mozart and Bruckner. With piano soloist Murray Perahia; Mar 10, 13 Munich Philhamonic Orchestra: conducted by Gianluigi Gelmetti in his own Prasanta Alma, and in Rossini's Petite Messe solennelle; Mar 11, 12 Philharmonie der Nationen:

conducted by Justus Frantz in works by Beethoven; Mar 14 EXHIBITION Haus der Kunst Tel: 49-89-211270 Art Across Borders: Classical Modernism from Cézanne to Tinguely and World Art - as seen from Switzerland. Display of the collection made by Swiss recluse Josef Müller (1887-1977), which combined European modernism with classical antiquities and pre-Colombian art. Includes works by Cézanne, Kandinsky and Miró; to May 30

Bayerische Staatsoper Tel: 49-89-2185 1920 www.staatstheater.bavem.de Katya Kabanova: by Janáček. Conducted by Paul Daniel in a staging by David Pountney, with sets by Stefanos Lazaridis and costumes by Marie Jeanne Lecca; Mar 12, 14

NAPLES EXHIRITION Museo di Capodimonte Mattia Preti between Rome.

Naples and Malta: first of three special exhibitions marking the 300th anniversary of the death of Mattia Preti (1633-1699), the southern Italian painter known as 'Il Cavaliere Calabrese'. The show emphasises the influence of Caravaggio, and includes about 60 paintings and 30 drawings by Preti and his contemporaries; to Jun 11

**NEW YORK** CONCERTS Avery Fisher Hall, Lincoln Tel: 1-212-875 5030 www.lincolncenter.org New York Philharmonic: conducted by Paavo Jārvi in works by Paul Creston, Bartók and J. Brahms; Mar 11, 12, 13

New York City Opera, New York State Theater Tel: 1-212-870 5570 www.nycopera.com Lizzie Borden: by Jack Beeson. New production conducted by George Manahan in a staging by Rhoda Levine, with Phyllis Pancella in the title role; Mar 10, 13

**PARIS EXHIBITION** Musée d'Orsay Tel: 33-1-4049 4814 www.Musee-Orsay.tr Edward Burne-Jones: major retrospective of the British pre-Raphaelite painter, which forms the mainstay of the museum's 'saison anglais': to

**OPERA** Opéra National de Paris, Palais Tel: 33-1-43439696 www.opera-de-paris.fr La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christine Goerke; Mar 12, 15

**PORTLAND** 

ROME

Schnitzer Concert Hall Tel: 1-503-248 4335 Lincoln Center Jazz Orchestra: America in Rhythm and Tune. First date of the Duke Ellington centennial tour, led by Wynton Marsalis: Mar 10

EXHIBITION Galleria Nazionale d'Arte Tel: 39-06-322 981 Picasso 1937-1953: The Italian Years. Around 70 works, including paintings, sculptures, ceramics and drawings, from the period between 1937, when Guernica was shown at the Exposition Universelle in Paris, and 1953, when Picasso himself organised major exhibitions in Milan and Rome, Includes loans from the Picasso Museum in

SAN FRANCISCO CONCERTS

Paris; to Mar 14

**Davies Symphony Hall** Tel: 1-415-864 6000 San Francisco Symphony and Chorus: conducted by Herbert Blomstedt in Bach's St. John Passion; Mar 11, 12, 13, 14

SEATTLE **OPERA** Seattle Opera Tel: 1-206-389 7676 www.seattleopera.org Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenawald/Ashley Putnam; Mar 10, 13

TV AND RADIO WORLD SERVICE BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

**EUROPEAN CABLE AND** SATELLITE BUSINESS TV

 CNN International Monday to Friday, GMT: 06.30: Moneyline with Lou Dobbs 13.30: Business Asia 19.30: World Business Today 22.00: World Business Today Update

Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

# Unreal remedy

The IMF is prescribing masochism for Brazil. Britain, post-ERM, suggests that there is an alternative way to the market's heart

On September 16 1992. sterling was released from the exchange rate mechanism of the European monetary system. In the course of that turbulent day. the UK authorities briefly raised the base rate of ·interest from 10 to 15 per cent in a futile attempt to ward off devaluation. This attempt failed. Once out of the ERM, interest rates fell progressively, to a low of 5.25 per cent in early 1994. For the British economy.

this was a turning point. As the chart shows, the exchange rate fell sharply at first, but soon stabilised. Inflation remained subdued Most important, the economy proceeded to stage a strong recovery, with output expanding 2.5 per cent in the year to the third quarter of 1993 and then 4.9 per cent in the year to the third quarter of 1994. So strong a recovery could not have occurred without lower interest rates.

It is a happy story. It need not have been. The UK might have been in the hands of the International Monetary Fund. If the EMF had run true to form it would have insisted on higher rates. It is even easy to guess its argument. The UK, the IMF staff would

have noted, was a country with a poor record on inflation and a long history of currency depreciation. The fiscal position was also deteriorating swiftly at that time. Now that the exchange rate anchor had failed, the UK had to regain lost market confidence. So what would good Dr Fund bave proposed? Higher interest rates. With higher rates, the economy in collapse and the fiscal position worsening. the Lord knows what a mess

the UK would have become.

A nightmare? Certainly. Inconceivable? Hardly. The IMF's canonical view on interest rates in a currency crisis is clear and brutally simple. By definition, it argues, the country is suffering a loss of confidence. It runs the risk of being caught in an inflation-devaluation death spiral. Moreover, the risk of such a spiral arises almost irrespective of the country's record. Indeed that point is explicitly made in the IMF's ssessment of its performance in the Asian crisis.\* Higher real interest rates are, argues the IMF, a necessary condition for

restoring lost confidence. This view then is why the course of interest rates in Brazil, as shown in the

Morgan already forecasts a contraction of 5.5 per cent of gross domestic product in

So Brazil, here comes recession. It is horrifying to think this is the best the economics profession can come up with. For what the IMF is saying (to acclaim from market participants, central banks and ministries of finance around the world) is that the only way for a government to restore market confidence is to demonstrate its willingness

to inflict misery on itself and its society. This is, in short. a masochist's route to credibility. It would be unfair to say

there is no defence for such

chart, has been so different

unsuccessfully, in the foolish

tempt to sustain the *Real*'s

dollar peg, this having been

better, following the floating

of the *Real* on January 15.

Short-term rates were then

raised steadily, from 29 per

around 39 per cent by the

beginning of February. They

then jumped to 45 per cent

Do not forget that until

inflation had been low in

Brazil, as the chart also

shows. The real interest

rates Brazil has suffered

recession. The latest

Brazilian economic

have been inconsistent with

healthy economic growth.

Now they will help generate

memorandum, accompany-

ing the agreement with the

IMF announced on Monday.

suggests the economy will

and 4 per cent this year.\*

Experience suggests that

interest rate package will

prove too optimistic. J.P.

of the results of a

devaluation-cum-high-

now contract by between 3.5

this preliminary assessment

the shock of the devaluation,

cent in mid-January to

on March 4. The panic

continued, all the same,

Brazil's biggest error. But

things grew worse, not

from that in the UK. High

interest rates were used.

(IMF and US-backed)

a policy. Higher real interest rates do increase people's willingness to hold a currency, other things being equal. But note that the annualised rate of interest required to persuade people to hold a currency expected to depreciate by 1 per cent a day is over 3,800 per cent, not 45 per cent. Note, above all, that the extent to which unsustainable policies can

restore credibility is at the

least open to question. Why is a high interest rate policy unsustainable in Brazil? An obvious answer is that no government will find it easy to survive a depression. But there is a more direct reason: the fiscal position. It is almost universally agreed that the government's predevaluation policies lacked credibility for two reasons: the overvaluation of the Real and consequent external imbalance (with current account deficits running at

and the fiscal deficit. Now just the fiscal deficit remains. But at around 50

around 4 per cent of GDP)

public indebtedness is not particularly high. Moreover. the country has a primary fiscal surplus (balance, without interest payments), targeted at 3.1 per cent of GDP for this year. Thus Brazil's fiscal deficit of 8 per cent of GDP last year is entirely explained by interest payments. Its difficulty, however, is that the cost of 70 per cent of its domestic debt is determined by the floating interest rate. According to J.P. Morgan, at an interest rate of 40 per cent and an exchange rate of R\$2 to the dollar, the costs of debt service become a horrifying 17 per cent of GDP So high interest rates are themselves the chief cause of the loss of confidence in

per cent of GDP, Brazil's

domestic monetary stability that they are expected to cure. Worse, if the impact of high interest rates on the economy is bad enough. even the primary budget surplus is likely to disappear, as revenue contracts and spending on goods and services rises. This then is a true vicious circle. Brazil is trying to

restore confidence with nolicies that seem bound first to undermine it. Are there less economically damaging and

more effective alternatives? The answer depends on what determines that elusive asset, confidence. If it is true that - for all but the biggest advanced economies apparently unnecessary suffering is the only route to the market's heart, then there can indeed be no orthodox alternative. Confronted by a market panic and lacking access to

sufficient foreign currency resources to halt the downward currency spiral. the country has to embrace the pain. But is this really the best the world can recommend? And, if it is. how long will it be able to sustain the orthodoxy it proclaims?

\*IMF-Supported Programs in Indonesia. Korez and Thailand: a Preliminary Assessment, January 1969: "Brazil Memorandum of Economic Policies, March 5 1999. Both available via http: unun.imf.org

Martin Wolf aft.com

PERSONAL VIEW JAMES A. HARMON

# Rule and prosper

Crisis-hit developing countries need to adopt and respect the rule of law if they want to attract private capital from abroad

we have learned from the financial crisis in the developing world it is that a global economy requires rules of law that are All too often, creditors have fair and predictable in every

Countless corporate borrowers from Manila to Moscow have been battered by the global crisis, leaving many insolvent and their foreign creditors shellshocked, not knowing whether they can recover assets in countries where the rule of law is absent. While the crisis has occasioned many cails for a "new financial architecture" and for economic policy changes in emerging markets, the lack of private-sector confidence among foreign investors has

been neglected. Yet this issue is vital. Prirate credit flows to the developing world have declined precipitously, from \$200bn in 1996 to less than \$20bn projected this year. There can be no real recovery until the fall is reversed. How can it he?

From our experience at the Export-Import Bank of the U.S. whose mission is to sustain jobs by supporting exports to these challenging markets, it is easy to understand why lenders are unlikely to make loans to companies that, if they default on their debts, will be protected by vague laws or cosy relationships with

local cours. If lenders and investors are so wary - and no one is rushing into crisis-affected countries these days - where will the capital come from to re-start growth? And if growth does not resume. what will happen to hundreds of millions of people whose living standards have plummeted in the last year? We are not talking only about lost fortunes, but lost jobs and lost hope - including jobs in developed coun-

Unlike the industrialised nations, where welldeveloped bankruptcy laws creditors and borrowers is capricious, dangerous Bank of the US

countries are without a gen-une and predictable rule of law to restructure financially threatened companies. no idea how they will fare. because they do not know the rules and often cannot know how they will be implemented. We have attended credit meetings where no balance sheets or financial statements can be

produced In Indonesia, courts refuse to recognise the concept of acceleration or that swap obligations represent debt. The Philippines' Securities jurisdiction over insolvency undermines protections afforded by Philippine bankruptcy law and principles of due process. In Thailand, some legislators who happen to be major shareholders of insolvent companies oppose enactment of laws to effectively enforce liens. In Russia, legal claims are often simply not recognised by courts. After the crisis hit,

new bankruptcy laws were adopted in Thailand and indonesia, but hopes for improvement short-lived. in many emerging markets, international creditors are also treated to the spec-

tacle of preferential and fraudulent transfers of assets from insolvent companies. Creditors lack effective legal recourse, and are unable to get debtors to co-operate in consensual or court-supervised restructurings based on full financial disclosure. This state of affairs, often resulting from cronvism benefiting wealthy, politically connected local businessmen, was easily overlooked during the go-go years of 8 to 10 per cent annual growth. But, when the chips were down - as Asian, Russian, and now Brazilian currency devalua-

over foreign lenders.

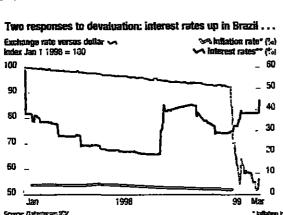
f there is one thing that alike, many developing and not conducive to

reasonable risk-taking. While the United Nations, the International Monetary Fund and others are working to help enact and enforce legal concepts so familiar in industrialised nations, this will take time - time that many developing countries do not have. In the meantime, the IMF, export credit agencies, banks and other sources of private financing must develop incentives for these countries' governments to recognise their obligation to provide a transparent, equitable and predictable legal infrastructure and Exchange Commission's for creditors - and they need

> approach would be for developing countries to establish impartial financial restructuring boards, which would allow creditors to voice complaints publicly and seek redress. The IMF could make rescue packages contingent on the creation of such an office. International creditors, including export credit agencies backed by the power of their governments, can make their assistance dependent on governments exercising responsibility to insure fair solutions. The private sector also could make access to capital conditional on such reforms. This would help rebuild confidence in doing business in

many emerging markets. Internationally accepted standards and legal mechanisms for restructurings are essential for lenders, commercial and public, again to provide the massive flows of capital that helped drive growth in many emerging markets in the early 1990s. Without the rule of law, it is unlikely that strong, sustained growth will resume. they have been since east. Without that growth, too many people in developing countries will be unable to tions - this cronvism casts a resume their own progress long shadow of uncertainty from privation to prosperity.

In short: Capitalism The author is chairman and provide fair protection for without the rule of law president, Export-Import



... and down in the UK Exchange rate versus DM ---Index Jan 1 1992 = 100 1992 ries: rates are COs rate for Brazil and Base rate for UK

### LETTERS TO THE EDITOR

### Illogical to say non-African world should not intervene in Africa

From Mr John Mbiti.

poison" (March 3) is, respect- countries have no responsi- draw from its important role fully, wrong to suggest that bility in Africa. Second, it is in eastern Europe. Because, the non-African world can- somewhat perplexing that, after all, eastern Europeans not and should not intervene while African problems need an eastern European in a complex African prob-require uniquely African solution to their problems. lem. solutions. Middle Eastern First. Africa's complex problems do not require John Mbiti, problems are in part due to uniquely Middle Eastern 414 W 44 Street 1E, European politics in the 19th solutions. If logic be logic, New York. century. In this regard, it and every region must solve

would be incongruous to its own problems, then per-Sir, Your leader "Africa's advocate that European haps the US should with-

### German company accounts favour caution

From Mr Martin E. Simons. Sir, Ralph Atkins and Uta Harnischfeger are to be congratulated on their article about Oskar Lafontaine, Germany's finance minister, and his tax plans, and the table showing international corporation tax rates ("Lafontaine fights a rearguard action to defend tax ambitions". March 3). Germany heads the table with rates of between 44 and 57 per cent with the lower range applicable to profit distributors.

The UK rate of 31 per cent is one of the lowest. Those of us who have been

known that a principal aim is to produce a cautious balance sheet. That is facilitated by tax-allowed heavy depreciation charges, automatic stock and foreign trade debtor write-downs (with the latter representing a form of export subsidy). As a consequence, what would seem to be harsh rates of corporation tax are applied to declared lower profits

Over-prudent accounting tends to create secret reserves year by year, thereby checking the growth examining German pub- of equity reserves, which in

than is customary in the UK.

lished accounts have long turn jacks up current return on published equity. Apparent better equity

returns linked with tucking away profits can lead to over-investment, which is also encouraged because too many financial analysts ignore some huge in-house pension reserves that are, in effect, loans to the business and should be included with debt when calculating lever-

Martin E. Simons, 24 Granard Avenue, Putney.

### Motor industry is changing

From Ms Niki Leahy.

Sir, John Kay's comments on the globalisation and scale economies of the motor industry ("Where size isn't everything", March 3) misses several points relating to the changing cost and price structure of vehicle manu-

facture. Consolidation within the industry is now leading to a "levelling out" of market share between a larger number of dominant producers as can be seen in both European Union and North American markets. In future, global distribution networks. rather than global volume capacity, will determine competitive advantage and

commercial survival. Profitability is no longer a result of economies of scale in global production and sourcing but dependant on maximising output to the point optimum with product differentiation, for supplying global market segments, in which no producer occupies

a dominant position. Production break-even can be achieved at lower output volume, provided it is sufficient to recover the additional, specific costs that relate to the particular supply decision. Prices are calculated to maximise total contribution to profit according to percentage market

Fragmented global markets will not end the domination of mega-volume producers, but they will end the high-volume capacity and economies of scale advantages that have previously been used to offset the industry's high fixed opera-

tional costs. In future, controlling sales and administration costs, and reducing costs occurring over the customer lifecycle. will be of far greater

Dim View. Howbury Street,

Bedford, UK

### Japanese money supply and deflation

From Mr Divyang Shah. Sir, You are certainly right to point out the three elements in the Japanese equation: lax monetary and fiscal policy coupled with financial sector reform ("Money for nothing", March 4). However, it is questionable whether an expansion in money supply (via monetisation) will be sufficient to prevent the dellation spiral that Japan and accelerating the has its roots in structural pace at which the yen depre-

Monetisation will help capacity and excess employment levels. From a theoretical standpoint, any inflation target requires a stable money and nominal gross use the proceeds to remove domestic product. Given that the bad debts from the bal- London WC1V 7JH, UK

the credit creation system ance sheets of the financial has broken down, and uncertainty surrounding private demand, it is even more difficult to aim for an inflation target, let alone a money supply target.

The creation of liquidity

without dealing with the financial sector troubles is likely to result in much of this liquidity moving out of ciates. While this would help Japan in the medium-term, increase the lag time of the economy adjusting to excess long as the financial sector remains dogged by bad debts on its balance sheets. A more palatable alternative is the purchase of bonds by the money multiplier, velocity of Bank of Japan in order to

However, dealing with the liquidity issue is easier than undertaking a wholesale restructuring of the banking sector in order to make it more profitable - to which one of the necessary conditions is to reduce the capital of the banking sector.
At present Japan seems

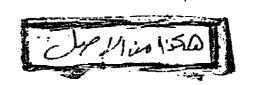
unable to take such a bold step and thus the risk is of another stop-gap measure that leaves restructuring a distant prospect for the

global strategist, IDEA. 296 High Holborn,

Number One Southwark Bridge, London SE1 9HL

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# FINANCIAL TIMES

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Wednesday March 10 1999

# Nato balancing act in the East

in three new members - Poland, the Czech Republic and Hungary - even though they are far from the Atlantic. The signing ceremony at the Truman Library in Independence, Missouri, lifts what one Polish minister called the geopolitical curse on his country of being on the wrong side of the east-west divide in 1945, for which Hungary and Czechoslovakia also had to suffer Soviet military oppression in 1956 and 1968 when they sought to renounce or dilute their membership of the Warsaw Pact.

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The Park

So this trio of central European countries has cause for celebration at "coming home", and Nato's existing 16 members have reason for satisfaction at the expansion of their alliance, the longest-lasting military pact in modern times. Yet there is a deceptive ease about Nato enlargement that carries risks.

The process of negotiating entry into Nato is nothing like as complicated or costly as the eastward enlargement which the European Union is also pursuing and which will take much longer. From start to finish, the incorporation of the Poles, the Czechs and Hungarians into Nato has taken less than two years, at a cost to Nato of less than \$2bn. Nato has committed itself to keeping its door open to still more members. But there are plenty of potential pitfalls down this road. The biggest of these would be to alienate Russia when it may soon pass into the hands of someone less sympathetic to the west than Boris Yeltsin. Taking Nato right to the borders of Russia will not increase western security if it also fuels Russian resentment. Moscow may one day again be strong enough to

### Baltic membership

Nine more countries are knocking at Nato's door. None of them will get an invitation to join from next month's Nato summit in because Nato allies disagree on dividing lines across Europe.

History will be made this Friday the direction of any expansion. when the Atlantic alliance takes France and Italy have put priority on the south - Romania and Slovenia. Other Nato states are cooler on enlargement, but their arms industry is keen on new markets. This is particularly true of the US, which has also made commitments to the Baltic states. New Nato members do not want to be left on the alliance's edge; so Poland, too, backs Baltic membership. Such a prospect brings an allergic reaction from Russia, which says it is flatly opposed to any former part of the Soviet Union joining Nato.

### Closer alignment

It is time to take a harder look at the criteria for Nato membership. First, countries should not be encouraged to join Nato long before the EU simply because it is organisationally easier for them to do so. Closer alignment of Nato and EU membership would also make sense if the EU is to take on a defence role, and avoid putting other countries into the category of Turkey, in Nato but outside the EU.

Second. Nato has to weigh its own strategic interest in enlargement. It is increasingly asking its members for the political will and military capacity to take part in crisis management and peacekeeping outside the Nato area. Potential members should be judged by whether they would contribute to these new tasks.

Finally, it would be wise to blur the distinction a bit more between Nato's "ins" and "outs". Obviously, some distinction must remain, if the collective rights and responsibilities of full membership is to mean anything. But Nato has run a very successful Partnership for Peace with many outside countries for the past few years, and the Washington summit is expected to offer applicant countries a new Membership Action Programme to help them get even closer to the alliance. This might not lessen coun-

tries' appetite to become full members of Nato, but it should Washington. But this is partly minimise the creation of new

# D'Alema's dilemmas

The determination of Romano Prodi, Italy's former prime minis- is now not greatly out of line ter, to ensure his country's entry with the rest of continental into European economic and Europe Perhaps the effects of monetary union was impressive. monetary policy are weaker and Yet doubts remained about how take longer to be felt in Italy Italy, with its heavy burden of than, say, in the UK; but there is government debt, would cope within a single currency. And already, the country is facing problems in its attempts to keep up with the euro-zone pace.

Output growth in Italy last year was the slowest of all the euro-zone economies, at 1.4 per cent; and most forecasters are predicting that growth this year will not be much higher. There are a number of reasons for this. The Asian crisis hit Italy much harder than many other European countries. The withdrawal of the government's incentives for car purchase is another factor. And the contractionary effects of the pre-Emu budget

squeeze are still being felt. Yet Italy's politicians must surely have hoped that the massive monetary policy boost pro-vided by a fall in short-term interest rates from 9 per cent in 1996 to 3 per cent now would kickstart growth again - as it has done, for example, in Spain. Why is this not happening?

One explanation is that Italy has traditionally been a nation of savers. A large fall in interest rates means that these savers will get a lower income from their investments. The contractionary effect this has could easily outweigh the impact from cheaper borrowing rates.

The counter-argument is that as interest rates have come down, so inflation has fallen, effect of lower interest rates on meaning that real returns have not fallen by much. However, the psychological effect of lower nominal rates could still be strong.

### Italian business

household savings ratio has been him to prove his critics wrong.

falling steadily for some time and no reason to think that policy would be ineffective.

### Structural problems

The alternative explanation for the puzzle of why falling interest rates have not boosted growth is that Italy's structural problems are constraining the economy's ability to expand. True, change is afoot in Italy's opaque corporate sector, with Olivetti's bid for Telecom Italia likely to prove a watershed. But in his five months in

power. Massimo D'Alema, the prime minister, has failed even to make a start on tackling other obstacles to economic progress. Italy's labour market remains one of the most rigid in Europe. Greater investment in infrastructure is needed, particularly in the south. And Italy's pension system absorbs a huge 15 per cent of gross domestic product; without reform, it will be extremely difficult to bring down the overall level of taxation.

This lack of further structural fiscal reform, together with sluggish output growth, means that Italy's progress in meeting its budget targets could be slow - as the European Commission warned only last month. Although the targets for the general government deficit are being met, this is chiefly because of the the government finances. The primary surplus (which excludes debt payments) actually slipped back significantly in 1998 from

The margin for manoeuvre afforded by low interest rates means that there is an opportu-A more important point is that nity for the government to make lower rates should still have a real progress on structural powerful effect on italian busi- reform. Unfortunately, all the ness, which has a relatively high indications are that Mr D'Alelevel of indebtedness, much of it ma's government will be too short-term. In addition, Italy's weak to take action. It is time for

the previous year.

Best of the UK Budget, page 8

# The smiling face of Iran

President Khatami has launched a charm offensive in Europe to attract foreign investment into his oil-rich but capital-starved country, say David Gardner and Robin Allen

ohammad Khatami, the smiling face of Iran, arrived in Italy yesterday, fresh from winning what was in effect a referendum on his attempts to reform the Islamist revolution in recent elections to town and city councils.

This is the first state visit to a western country by a leader of the Islamic Republic which in 1979 replaced a pro-western monarchy with a fearsome theocracy. It is Mr Khatami's first shot in a charm offensive designed to enhance his and his country's international stature - and above all to break free from continuing US attempts to isolate Iran's oilrich but capital-starved economy.

Italy is a modest enough beginning for such a campaign. It was chosen because Lamberto Dini, foreign minister, and Romano Prodi, then prime minister, were the first western leaders to visit Tehran last year and demon-strate some understanding of Iran's evolution. But Iranian and western officials say the engaging reformer's ambition should

not be underestimated.
"The Iranians see Italy as a bridge to a wider dialogue with the European Union which they expect to consolidate when Mu Khatami follows up his talks in Rome with official visits next month to France and possibly Germany." says one senior European diplomat in Tehran.

There are powerful domestic reasons why Mr Khatami should be seeking dialogue with Europe. Respect abroad is translatable into increased authority at home. Despite his popularity, Mr Khatami is constrained by hardliners who use religious dogma to defend the power and wealth they have built up since the revolution. This is doubly so in a system like Iran's, of competing but fluid power centres, where power flows to where power is perceived to lie. As the leading pro-reform daily Salam observed on Sunday: "The success of the reformers in the local polls will pave the way for Khatami to carry forward his foreign policy: it will help him to act with greater authority." There are three connected

objectives of Mr Khatami's campaign. They are: to win western endorsement of his efforts to create accountable government under the rule of law; to foster international acceptance of Iran as a regional power with legitimate security interests in the Middle East and central Asia: and to begin enticing the foreign should feel it is not our intention investment. Iran desperately to isolate Iran or to keep him in a needs to employ its fast-growing population, two-thirds of whom are under 25.

legitimacy among the country's dering on adulation.

weeks ago showed that his difficulties of his own. reform coalition is intact and on the march. Still incomplete crats still hold many of the counresults indicate it won around 70 per cent of all seats, sweeping the capital and Isfahan, which rivals Tehran in political ferment.

polls since the revolution. In fact, - who controls foreign and they were the first local elections in over 2,500 years of Persian hisservices and judiciary, and about tory. More to the point, they mean that supporters of Mr Khatami now have every chance of thrashing the theocrats in next year's elections to the Majk's or power centres have every interparliament - currently a bastion est in opposing rapprochement tions", which he will begin with year in foreign investment to west.

winning his re-election in 2001. If by then he has managed to acquire what one senior European official calls "real international standing". it will be very difficult for his opponents to bring him down.

As Mr Dini put it this week: "A new course has been set by President Khatami and he needs and deserves our encouragement. He religious ghetto.

The difficulty faced by Iran's hardliners is not only the sheer The reformist president, scale of the two defeats Mr Khaelected by a landslide nearly two tami has inflicted on them. It is years ago, enjoys unquestionable that the evolutionary reform offered by the president legitimyoung population. They support ises the continuity of the Islamic Mr Khatami with a fervour bor- Republic. But while this confers enormous advantage on the The municipal contests of two reformers, Mr Khatami also faces

To begin with, Islamist theotry's power levers. It is not Mr Khatami but Iran's supreme leader - Ayatollah Ali Khamenei. who succeeded the revolution's These were the first municipal late leader, Ayatollah Khomenei through revolutionary "foundations" or *bonyads*.

The shadowy masters of these

and investment which would follow, because that would end their control of a rickety but lucratively rigged economy. Evidence that the interests of

the theocrats are at least as much material as spiritual is that they resorted late last year to the assassination of half a dozen reformist intellectuals the moment the government started

### open its books. The US would be among its inquisitors, and Iran will not

countenance that'

trying to audit the bonyads, states-within-the-state which monopolise the provision of some 5,000 goods and services. Put another way, for every American ton of Harvard University, who to reform the economy. posits a "clash of civilisations" between the Christian west and

of resistance to reform - and with the west and the open trade the Vatican tomorrow at an unprecedented meeting with Pope John Paul II. At home. though theocrats fear Mr Khata-

mi's dialogue will end clerical

rule and privilege. The west, for its part, is anxious about Tehran's apparent attempts to develop nuclear weapons capability with Russian assistance - as Massimo D'Alema. Italy's prime minister, has said he will make clear this week. It is that fear which is fuel-

US Congress, few of whose mem-separate departments of the cenbers see any electoral profit in a tral bank. dialogue with Tehran of any But with Israel's unacknowledged nuclear arsenal to its west feels it has the right to defend

genuine co-operation on security in Iran's unstable surroundings. The nuclear issue and US sanclike Professor Samuel Hunting- Mr Khatami government's efforts

itself. It could push ahead with

its weapons programmes unless

And it is not clear that Iran can delay structural reforms for has set Iran on a course of politi-80 per cent of Iran's economy militant Islam, there is a much longer. The currency is cal devolution and reform. well-heeled mullah egging him sliding the budget deficit is soering, and unemployment and In its stead, Mr Khatami has inflation are both acute. Iran

return to stable annual growth of about 5 per cent. It also needs to reschedule its foreign debt, most of which is short-term.

Of Iran's \$23bn foreign debt, \$11.9bn is short-term. This means that Iran must often resort to refinancing obligations under unfavourable terms, particularly now that oil revenues, which comprise 80 per cent of hardcurrency earnings, are low.

"The scale of this foreign debt is not the problem," according to one senior European diplomat. "Compared with Turkey's \$100bn or more and the scale of Iran's resources, its debt could easily be entirely rescheduled and put on a viable basis, if only Iran would take its problem to the Paris Club of OECD governments. But Iran is not willing to open its books. The US would be among its inquisitors, and Iran will not countenance such a prospect."

Moreover. Mr Khatami's cam paign to present the smiling face of Iran contrasts strongly, businessmen and bankers in Tehran say, with the fearsome bureaucracy that awaits foreign investors. Last month, for instance, the Majlis passed a budget law which highlights the country's schizophrenia about foreign investment. On the one hand the law, effective from the beginning of the 1999-2000 fiscal year starting on March 21, held out for the first time the prospect of 49 per cent foreign equity partnership in Iran's refineries. But the same budget law proposes to slap an income tax of 50-60 per cent on the salaries of all foreign residents, plus a corporate tax of 30 per cent, payable by foreign companies, on the collective salary of all their foreign employees.

The dysfunctionality of the law betrays Iran's preoccupation with security. Its ostensible purpose is to force foreign companies into three "free trade zones" on islands in the Gulf. "That way," one senior European diplomat says, "Iran's bureaucracy and security apparatus will have for eign businessmen where they can be more easily kept under surveillance.

Even if foreign businessmen find a way round the "free zone" hurdle, they are met by a bureaucratic jungle of officials who are appointed, according to Ali Rashidi, an economist, for "reasons of nepotism and political favouritism rather than on merit".

Bankers complain that simply to get the central bank to confirm buyer letters of credit, a private sector client has to go through no fewer than 23 proceling the drive for bigger and bet- dures involving three different ter sanctions against Iran in the government ministries and five

These include a honeycomb of offices ranging from the secretariat of the foreign exchange market supervision committee, to the and India's and Pakistan's new foreign exchange policies and nuclear capability to its east, Iran regulations department, the international finance department, the general credit agreements department, the foreign it feels the west is prepared for exchange control department,

and the foreign debt department. Even under Mr Khatami, therefore, Iran is not for the fainttions on Iran greatly complicate hearted. Widely known across his country as "the laughing son of the prophet [Mohammed]", in the 18 months since he took office he

But there is little to smile about in the obstacles he still faces. To surmount them, he is

### **OBSERVER**

### **Bonino breaks** for the border

The large newspaper advertisements earlier this week left no one in any doubt that Emma Bonino, the European Commissioner responsible for fisheries, consumer policy and humanitarian aid, had launched her campaign to become president of Italy.

But Observer remains puzzled.

The Commission has just unveiled new codes of conduct for its members which frown upon activities that might represent a conflict of interest. A Brussels official is swift to clear things up, insisting Bonino isn't really a candidate.

It's all quite simple: because the president of Italy is chosen behind the closed doors of Rome's party headquarters, the "non-candidates" do not go out and campaign. "If there is no election campaign, then there is no conflict between this non-candidature and the code of conduct," a Commission official explains.

As a member of the marginal Radical Party Mrs Bonino stands little chance of being reappointed to her seat in Brussels. So it's only fair she should be allowed to look for a new job.

### **Barking mad**

sniffed out a scandal. Namely the vexed question of whether the UN paid more for a security dog than an under-secretarygeneral.

A Costa Rican envoy has apparently raised the issue before the main UN budget committee. It's said the dog in question is costing \$150,000 a year, while the impoverished under-secretary-general takes home a mere \$140,000. But all those officials thinking

of demanding a pay rise should take heart. Observer's hounds have been on the trail, and have discovered the canine fee may include a handler. Even so, paying one man and his dog that much really does take the biscuit.

### **Board games**

There's safety in numbers at Credit Suisse. Switzerland's second biggest bank has just set up not one but two new advisory boards to aid its own star-studded group board.

Helmut Kohl, the former German Chancellor, Telecom Italia's Franco Bernabe and Bayer's Manfred Schneider are some of the heavyweight figures invited on to Credit Suisse's 12-strong international advisory board. The new Swiss advisory board is bigger still, with 18 members who will no doubt be wined and dined in return for Those spending watchdogs at the United Nations seem to have raising "issues of concern", it's an odd move since

International advisory boards have fallen out of favour as banks have become more cost-conscious. Swiss Bank Corporation scrapped its council of international advisers a couple of years ago because it was worried about conflicts of interest with its investment bank.

Switzerland's national airline, has just set up an advisory board. but at the same time halved the size of its own 19-strong board. Credit Suisse, on the other hand, will continue to have 18 directors on its main board. That's far too many for

SAir Group, parent of

effective decision-making. But then cynics might argue that it's Rainer Gut, Credit Suisse's well-connected chairman, and not his board, who has always called the shots.

### Kopper bottom

Former Deutsche Bank chairman Hilmar Kopper once made a bit of a gaffe by describing his bank's property-related losses as "peanuts". He's capitalised on the remark ever since. For instance, he recently featured in a Frankfurter Allgemeine Zeitung advert reading the paper while perched atop a railway wagon full of peanuts in Georgia, USA. A reference to him on the internet even refers to his peanut crack as well as giving details of his blood pressure.

But the latter may be set to

his many corporate hats as chairman of the supervisory board of DaimlerChrysler, is being furiously accused by other supervisory board members of keeping secret details of new contracts entitling main board members to big pay increases and generous stock options. In that context, talk of peanuts just isn't on.

### Signing off

At last! The finger of fate has given foreigners living in Japan a helping hand. Foreigners setting up home in Japan have long been required to submit their fingerprints for registration purposes. But now, after 47 years, the government has agreed to revise the rule - and substitute signatures for fingerprints. The rule has been a bone of

contention in Japan as foreigners see it as an infringement of human rights. So much so that in 1992, legislation was revised to stop fingerprinting for those with permanent residency status.

The most recent decision will abolish the requirement for all foreigners, regardless of residency status, and is expected to affect some 600,000 residents.

But there are still some ruffled feathers as many foreigners are obliged to carry alien registration cards at all times. Evidently, foreigners' human rights, like rise. Kopper, wearing another of Rome, weren't built in a day.

# Financial Times

### 100 years ago A Come-down For The El

Dorado Of North America After all the accounts of the fabulous wealth of the Klondyke, it is strange to read that money is remarkably tight in Dawson City. Yet this is the statement made by the special correspondent of the Toronto Globe, who adds that 10 per cent. per month is quite a common rate of interest, and that 15 per cent. is being freely offered, just because the delay in the mails has prevented remittances from reaching the town. We would have imagined that a few of the nuggets about which so much has been written might have saved the situation. It is a sad come-down for the capital of the new El Dorado to have to depend on outside sources for its petty cash.

### 50 years ago

U.S. Gold Imports Washington, March 9. South Africa furnished the whole of America's gold imports of 90,283 Troy ounces in the week ended February 16. Department of Commerce statistics disclose. Exports of the metal were 29,500 Troy ounces, all to Poland and Danzig.

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# FINANCIAL TIMES

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WEDNESDAY MARCH 10 1999

### THE LEX COLUMN

# Coughing up

RJR Nabisco has certainly extracted a puffed-up price for its international tobacco operations. The \$8bn Japan Tobacco is paying equates to 15 times earnings before interest, tax and depreciation - nearly twice what BAT paid for Rothmans two months ago and far higher than the valuation accorded quoted rivals like Imperial or Gallaher. Such largesse can only be explained by the Japanese group's desperation to expand overseas as it loses market share at home.

This coup should see off corporate raider Carl Icahn, who has built a 7.7 per cent stake. It cuts RJR's net debt to \$3bn and paves the way for a separation of the remaining US tobacco and Nabisco food businesses. RJR's 80.6 per cent stake in separately listed Nabisco is worth nearly \$30 a share. On a cautious 12-13 times earnings, the domestic tobacco unit adds another \$13-\$14.

There is a caveat: the existing holding company, which will end up with just the Nabisco stake following the demerger, will retain its exposure to tobacco litigation claims. Nevertheless, with RJR's shares at just over \$30, there is substantial value to release.

It might also boost rivals, by creating a pure, quoted US tobacco company as a comparator. At present, the US tobacco operations of Philip Morris and BAT are valued at close to zero by the market.

### Telecom Italia/Olivetti

How do you enfranchise non-voting shareholders without making voting shareholders unhappy? Telecom Italia's financiers have devised a clever answer. The simple approach of giving the savings shareholders ordinary shares on a one-to-one basis is unattractive. The savers would be more than happy with such a plan - after all, their shares currently trade at €5.80 compared with €9.70 for the ordinary shares. But ordinary shareholders might feel they were cheated if their voting privileges were diluted without any quid pro quo. And there is no point in antagonising the voting shareholders, as they will determine whether Telecom its operating profitability for the fourth keeps its independence in the face of Olivetti's onslaught.

Hence a scheme being considered by Telecom for giving all shareholders conversion warrants. Collect enough of these

Share price relative to the Nikket 225 Average

warrants and savings shareholders would be able to convert into voting shares. The twist is that - because each shareholder would probably be given only three warrants but 10 would be needed for conversion - the savings shareholders would have to buy the remaining seven from ordinary investors.

This mechanism could kill two birds with one stone. First, ordinary shareholders would receive cash - perhaps as much as €1 a share. Second, the savers would be enfranchised. That would make Telecom an even bigger mouthful for Olivetti to swallow, as it is not currently bidding for the savers. The only caveat is that this scheme may be too clever by half.

Sony's restructuring announcement verged at times on the opaque. A "unified dispersed" management model does not exactly trip off the tongue. But it would be wrong to underestimate the courage of what is being proposed.

The company's overhaul is twofold. First are its efforts to improve profitability in its electronics operation, which has been hit hard by the strength of the yen and savage price erosion, especially in the Japanese market. Certainly the company's third quarter results raised fears over quarter, despite the great strength of the Sony brand. The impact of cost-cutting on profitability is tricky to quantify. Reducing headcount by about 10 per cent by the end of March 2003 sounds chunky, but, as

with NEC's recent restructuring announcement, it is unclear how many of these jobs cuts would have come anyway through natural wastage. Reducing Sony's manufacturing facilities from 70 to 55 may turn out to be the more significant mea

Second, and possibly more radical, is Sony's shift in management and culture.
The company stressed the importance of profitability. More outside directors and greater transparency in its head office operations should put pressure on head-quarters personnel to explain how they add value to the sprawling group. Competition is hotting up between Japan's electronics conglomerates keen to demonstrate their shareholder-friendly

### **UK Budget**

This was a pre-election Budget. And probably the first of three at that, given that the election is unlikely to be held until 2001. As ever Gordon Brown, the chancellor, has been clever politically. The tax cuts announced yesterday kick in modestly; the net tax give-away is only £1.1bn in 1999-2000. But by 2001-2002, the probable election year, the give-away has increased to £3.6bn.

Mr Brown presumably hopes voters will have forgotten the abolition of various tax privileges when they enter the polling booth, but will still be grateful for the lower income tax rates.

Despite the tax cuts, the government's net borrowing still manages to fall a touch in each of the next three years. How come? Reduced interest payments on government debt, a lower contingency reserve and accounting adjustments are the answer. Together they cut government spending by an average of £5bn a year, more than enough to pay for the lower rates of income tax.

These are the sort of conjuring tricks UK chancellors love. Investors, though, will not be fooled by Mr Brown's arithmetic. The fiscal boost may be fairly small beer. But the bond market has already sold off in expectation that the Bank of England will now be less keen on cutting interest rates. A sober assessment is particularly appropriate if one thinks Mr Brown will cast more goodies in the voters' direction in his next two Budgets.

DIPLOMAT WITH REPUTATION FOR INFLUENCING MARKETS MAY DEPART IN RESHUFFLE

# Japan's 'Mr Yen' likely to be replaced later this year

Eisuke Sakakibara, Japan's high profile and controversial financial diplomat, is expected to leave his post as vice-minister of finance for international affairs later this year.

Any reshuffle at the ministry will be closely watched in international financial markets. In the two years that Mr Sakakibara, 57, has held the post, he has earned a controversial reputation for making comments that attempt to influence markets. He has become known as "Mr Yen" for his reputed influence over the foreign exchange markets.

Mr Sakakibara has also been more forthright in expressing his views to foreign bankers than most Japanese bureaucrats, partly because of his experience in the US as an academic

Although some foreign observers have welcomed his openness, it has sparked criticism in the ministry, and some bureaucrats sought to replace him last year. Officials say he is likely to be replaced by his low-profile deputy. Haruhiko Kuroda, 54.

The finance ministry insists that it has taken no binding decisions about the reshuffle. However. its rules for internal job rotation mean that Mr Sakakibara will almost certainly leave, unless Keizo Obuchi, Japan's prime minister, specifically intervenes.

In recent days Mr Sakakibara and the ministry have indicated that they are preparing for a reshuffle. For example, the ministry has recently asked Takatoshi Ito. an economics professor, to become Mr Sakakibara's assistant.

"Mr Sakakibara is more articulate and closer to the hedge funds than many of his predecessors." says Peter Morgan, economist at HSBC Securities.

The markets have seen Mr Sakakibara as a supporter of a "strong yen" policy, although he has modified this stance in recent weeks. As one US bedge fund manager says: "If he goes there is a chance that people could assume that there will be a weaker ven.'

Mr Kuroda shares most of Mr Sakakibara's views on the currency and the markets. However, he is a career bureaucrat who has maintained a low profile. A reshuffle could therefore lead to a change in the minis-

economist at Goldman Sachs, said: assume next.

"Mr Sakakibara's departure could reduce the influence that Japanese policymakers are likely to have over dari", a descent from beaven, into a the foreign exchange markets."

However, some officials suspect that the planned recruitment of Mr Ito. 48, marks an attempt to maintain the ministry's contacts with foreign bankers and US officials.

Mr Ito is a close ally of Mr Sakakibara, and has also spent many years working in the US, including a stint at the International Monetary Fund. Mr Ito also has links with Lawrence Summers, US deputy Treasury secretary, since both men studied at graduate school in Harvard.

Mr Sakakibara has not Yoshito Sakakibara (no relation), cated what post, if any, he may

In the past, retirees from that position have tended to perform "amakuprestige job in the financial sector.

ų:

Toyoo Gyohten, for example, a former vice-minister, is senior adviserat Bank of Tokyo-Mitsubishi. But in the wake of scandals over excessively close links between financial institutions and the ministry, this

practice has been outlawed. Mr Sakakibara has recently told colleagues that he is considering returning to academic life, possibly at a think-tank or by founding his own research institute. He also has indicated that he would like to work in Australia, partly because he is

fond of scuba-diving.



# isotus, Entery Man Idn't fly.

Between now and 2015, experts predict that a 240% growth in seat miles and essential fleet replacement will trigger a \$1.25 trillion market for new auctaft. They'll take flight with the help of Dowty, a world leader in specialised hydraulics. and actuation systems, turbine engine components, aircraft structures, tubular systems and advanced propellers. With 42 design and manufacturing facilities worldwide, **Dowty** is partnering every major aircraft and engine programme and supplying 40 leading aircraft and engine manufacturers, its equipment flies on over 200 types of aircraft and Dowly provides support to 450 airlines and 150 military operators in 90 countries. Which all means more advanced flight for 21st Century Man. Dowty is one of TI Group's four specialised engineering businesses, the others being John Crane, Forsheda Polymer Engineering and Bundy Each one is a technological and market leader in its field. Together, their specialist skills enable TI Group to get the entited answers right for its customers. Worldwide.



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	FT WEAT	HER GUIDE	
Europe today			الله العالم المراد الم

Western regions will be milder but France and the north and west of and the Low Countries will have sporadic rain but central regions should see some sunshine. It will also be sunny across south-east atthough a few showers are likely in Turkey. Snow in the north-east will turn to rain as milder air moves in from the west. Scandinavia will stay cold with some

Five-day forecast Heavy rain will spread farther east across the Iberian peninsula and estern Europe but central and

Mediterranean will be sunny and warm. Scandinavia and the far north-east will have more snow.

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### INSIDE

overshadowed trading in equities, reversing initial gains in Europe and sparking early profit-taking in the US. A round of unexpectedly solid European economic data was the main focus for bond investors. Page 32

### PDVSA's oil dream evaporates



oil company, has been gloomy in recent weeks. The collapse in global oil prices has riggered a series of draconian budget cuts that have plunged the economy into deep ecession, while increased intervention by the government of

sident Hugo Chávez (left) threatens to down size the company further. Page 17

GM reveals expansion plan General Motors announced ambitious plans to expand its European sales and market share

Venezuelan coffee industry perks up As Venezuela's oil industry, the principal source of foreign exchange, is hit by record low petrol prices and production cuts, the Caribbean nation is rediscovering what was once its lead-ing cash crop - coffee. Page 22

Yields on Japanese bonds rise Yields on long-term Japanese government bonds rose sharply after a warning from the Bank of Japan governor that he expected long-term interest rates to rise again soon. Government officials' suggestions of an imminent tightening of bond trading regulations also

Whispers warn of China devaluation China raised interest rates yesterday for local accounts held in US and Hong Kong dollars, sparking rumours that the renminbi might be

Shares in Tokyo closed above 15,000 for the first time in more than three months, buoyed by a surge in the high-tech sector and news of

China should triple the ratio of gold in the foreign exchange reserves, which have become over-invested in US dollars, according to a recommendation by a senior official at the national gold bureau. The allocation of China's \$145bn foreign exchange reserves, the second currency markets. Page 22

COMPANIES IN THIS ISSUE

Albright & Wilson

Alcatel Space

Audi

**Boeina** 

CMGI

De Beers

Enersis

Franklin Resources

GEC Marconi

General Re

Gucci

HJ Heinz

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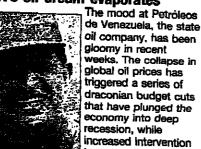
18 Julius Baer

16 Korea First

### **Bonds overshadow equities**

A renewed burst of selling in bond markets

### The mood at Petroleos



while recognising demand and pricing in most countries would deteriorate this year. Page 16

damped the bond market. Page 20

devalued. Page 21

Nikkei jumps back above 15,000 Sony's restructuring. Page 32

China urged to boost gold reserves

# New York supermarket chain sold for \$1.7bn

By Gordon Cramb in Zaandam

(2) THE FUNANCIAL TIMES LIMITED 1988

Dutch supermarkets group, yesterday built on its US presence with a \$1.75bn agreement to buy Pathmark Stores, which operates 132 outlets in and around New York.

The deal comes barely four months after Ahold completed the \$2.8bn takeover of the Maryland-based Giant Food. Pathmark has a 12 per cent market share in metropolitan New York and a reach which stretches to New Jersey and Pennsylvania. It had sales of some \$3.7bn last year.

This compares with the \$16.2bn in revenues achieved by Ahold's existing US operations. Its presence in the US market was a main contributor to 1998 net profits of the Dutch group, also announced yesterday. These rose 29 per cent to F11.21bn (\$620m), on revenues ahead 15 per cent to FI 58.4bm

Ahold is to pay \$250m for SMG-II Holdings - the vehicle for a leveraged buy-out of Pathmark carried out in the mid-1980s - and its SMGH subsidiary, making a \$38.25 per publicly traded preferred shares.

The rest of the purchase price reflects the assumption of \$1.5bn in Pathmark debt. Pathmark is a well-run company but under-invested because of a highly leveraged

The Dutch group will pay for the deal from its existing credit facilities, redeeming Pathmark's debt. It added: "Part of the debt restructuring may be funded with newly issued share capital."

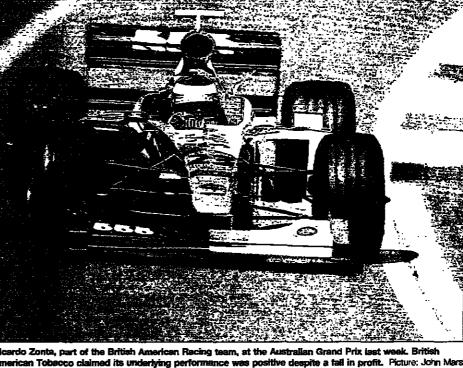
Last September, Ahold issued Fl 2.73bn in new equity as part of an offering, which also included convertible notes, to fund the purchase of Giant Food. It said at the time that its next takeover would not require a share issue. Michael Meurs, chief finan-

cial officer, said that the Pathmark deal would not be com-pleted until the fourth quarter, and a decision on raising capi-tal would be made only after that. "I think that means we will have kept our promise," he said.

Ahold shares closed 2.8 per cent lower in Amsterdam at €32.55 (\$35.42) although the group forecast an increase, excluding the effect of currency fluctuations, of 15-20 per cent in earnings per share for

It said the acquisition would have no impact on earnings per share this year or next and be "substantially enhancing" share tender offer for SGMH's after that. For the first three quarters of 1998, Pathmark had operating earnings of nearly \$97m, indicating an operating margin of 3.5 per cent. Mr van der Hoeven said the

group continued to seek expansion in southern Europe, but bigger markets to the north balance sheet," said Cees van had not brought acquisition der Hoeven, Ahold president. candidates at the right price.



# BAT still upbeat despite 16% decline in profits

British American Tobacco, which next week publishes details of its proposed £5.28bn (\$8.5bn) takeover of Rothmans International, yesterday insisted that its underlying performance was positive in spite of a 16 per cent fall in

The shares - which shot up to 625p on news of the takeover plan in January - fell 27½p to 545½p. Analysts suggested that investors were worried by the group's prediction that first-quarter operating profits would be down on the comparable 1997 period, and by the prospect of further

litigation in the US.

that was demerged last autumn, fell from £875m to £738m. But the figures were clouded by exceptionals, including the payment of a total of £613m in US tobacco litigation settlements and the receipt of a £74m tax benefit in

At the operating level, profits were down 3 per cent to £1.55bn on sales of £17.4bn (£17.8bn). But the group said that operating profits edged ahead by 1 per cent to £1.6bn at constant 1997 exchange rates after allowing for restructuring charges. Martin Broughton, chair-

man, said it would have been all too easy for management to Pre-tax profits for the 12 take its eye off the ball last

ment in operating profits at constant exchange rates was in line with its promise when the takeover of Rothmans was announced - "a resilient performance" in the difficult trading conditions that were continuing around the world. These were most evident in

the Asia-Pacific region, where operating profits tumbled 41 per cent to £182m. Mr Broughton said the set-

tlement of the state Medicaid claims against the industry in the US should have provided greater certainty for both shareholders and employees of the group. But further claims had shaken investor confi-

months to December 31, exclu- year given the extent of corpo- Zurich adds a charge, Page 17

### European markets to harmonise trading

By Vincent Boland in London

A single stock market to trade the shares of Europe's top 300 companies moved a step closer yesterday when the London and Frankfurt stock exchanges the way shares are traded on their order books.

The exchanges have proposed "core market hours" of 9em to 5.30pm Central European time (08.00 to 16.30 GMT). an unlimited maximum order size on their trading books. and a 90-day limit on how long an unfulfilled limit order can remain on the books.

The proposals are due to come in to operation in the third quarter of this year. The move towards a "super stock exchange", which investors say they want after the arrival of the euro in January, were

unveiled last July.
Separately, the London exchange has begun talking to users about closing and intraday auctions on Sets, its electronic order book, in addition to its opening auction. It has again raised the possibility of extending Sets to FTSE 250 stocks and a possible move to a shorter settlement cycle than the existing one, where trades are settled five days after being executed (T+5).

Frankfurt's Xetra electronic order book already holds auctions several times a day and settles at T+2. The exchanges are understood to be aiming for a uniform T+1 settlement cycle, considered the international norm.

On January 4, London and Frankfurt repatriated trading in each other's listed securities and offered members direct access to the two markets. Neither development was seen as dramatic since non-domestic trading volume was relatively small, while most large broking firms were already members of both the London and Frankfurt markets.

The changes to hours mean the Sets order book will open one hour earlier, while the Xetra order book will open and close 30 minutes later.

The change to maximum order sizes will not affect Frankfurt, which has no size limit on a trade, while London sets a limit of 20 times the "normal market size". The change to order duration will see London extend its limit order validity period from 31 days, while Frankfurt will cut sharing their voting privileges. Telecom Italia defences, Page 16 | its period from up to one year.

# Telecom Italia considers new bid defence

By Hugo Dixon in London

savings shareholders as part of €53bn (\$57bn) hostile bid. The move, which is likely to be discussed at today's board meeting, could make Telecom a much harder target for Olivetti to swallow. Olivetti's already pitched at Telecom's ordinary

shareholders. The savings shares account for 29 per cent of Telecom's share capital. If they converted to ordinary shares, the cost of mounting a its defence against Olivetti's bid would increase by more

than 40 per cent. The savings shares trade at a discount of more than 40 per cent to the ordinary shares. The discount has widened sharply since Olivetti launched its bid. This is in part because of fears that

savings investors will be forced to take non-voting stock in Tecnost, Olivetti's acquisition vehicle, if its bid succeeds.

The innovative scheme being considered by Telecom would probably involve issuing three conversion warrants to ordinary and savings shareholders. Anybody accumulatbe able to convert a savings share into an ordinary one. This would mean that savings

seven warrants in the market

from ordinary shareholders. Telecom is thought to be attracted to this particular mechanism for enfranchising savings shares because it believes it would appeal to latory body. This means an both classes of investor and announcement is unlikely help ward off Olivetti's bid. Ordinary investors would receive cash in exchange for Lex, Page 14

would have to buy an extra ers would have to part with cash, the big discount they currently suffer would vanish. Before Telecom can

> announce its scheme, it needs the approval of its board and Consob, the stock market regu-



BARRY RILEY

### Merrill's brave new world

First the UK, now the world. In 1997 Mercury Asset Management formally published for the first time its views on investment strategy for UK pension fund clients. Now, as Merrill Lynch

Mercury Asset Management, it is expected by its new bosses to acquire global institutional business, in four base currencies anyway, including dollars, yen and euro, as well as sterling. One response is the fatter

Investment Strategy &

Structure, Global Edition. It represents a sturdy defence of the large, multi-purpose investment house in an age of specialists. Mercury now runs about 2240bn worldwide, but its core

UK pension fund business is under pressure because of poor results against benchmarks. Can it extend the transition from running UK balanced pension funds to becoming a global multi-asset manager? Some changes are obvious enough. For its global

audience MAM has added more asset classes. Hedge funds, for instance. are noted for their high returns but there are warnings about survivor bias in the performance figures and the hedge funds' lack of resources

compared with those of "a large conventional manager". Low correlation with an expensive stock market might appear a current advantage but investors might wind up buying "noisy cash". The passage of time can also bring new wisdom. In 1997

harbour" assets (often bonds) that match an institution's long-term liabilities but which usually give only low returns. in practice, higher returning assets can be substituted as long as clients have a long enough time horizon to accept

the short-term risks: a 20 per annual returns on equities, for instance. The promotion of equities is

may reflect the difference in more bond-oriented than UK pension funds which typically still have equity exposures of more than 70 per cent.

There are also one or two about the level of future real returns on equities, although it quotes a consensus expectation of between 5 per

The competitive challenges could be seen as a response to the powerful consultants decision-making processes and lock money managers away in tiny specialist boxes.

adds, can add value outside narrow specialist briefs, and for many institutions can provide "a cost effective As for the passive fund

managers that are now points out that although index-tracking may be cheaper, it is not more prudent.

may well add only a tiny increment - perhaps 0.2 per cent - to the overall market The risk/return ratio is

therefore potentially high. But it has to admit that the average active manager will lone run. Finally, those benchmarks.

Historical returns provide only a very weak guide to future performance, MAM says, even if they are nevertheless widely Concepts such as "tracking

with client financial risk. Yet in a tough world, a couple of bad years for performance can do serious damage, even to the biggest and most lavishly resourced fund management house.



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MARKET STATISTICS

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there was enthusiasm about emerging market equities because of the sheer growth generated by these dynamic economies. But they are now seen as only "often" dynamic, with risks more evident than the rewards.

Mercury's basic concept remains one of defining "safe

cent standard deviation of less enthusiastic than in the previous edition, though. This the global client base, so much

hints that Mercury is worried

cent and 7 per cent. to Mercury are clear from the document, which in itself trying to grab control of the central investment

The "balanced versus

specialist" debate, observes MAM, is really about the relative ability of investment consultants and investment managers to assemble a talented team. A multi-asset manager, it

solution that does not expose the investor to undue risk". soaking up business, Mercury

An active manager with an active risk of, say 2.5 per cent,

probably underperform in the

error" may be useful for checking manager styles but they often have little to do

# Endesa gets second bite at Enersis

month to gain outright con-Latin America, thanks to key support from US institu- statutes. tions that are shareholders of the Santiago-based elec-

An attempt by the Spanish strategy, group to change Enersis' Resources, a US fund that

stake in the utility from Endesa, Spain's leading 32 per cent to 64 per cent power group, will have a was rejected two weeks ago second opportunity later this when an extraordinary general meeting vote fell just trol of Enersis of Chile, its one percentage point short main investment target in of the 75 per cent majority required to change Enersis'

> But in a surprise breakthrough that has enabled Endesa to renew its takeover Franklin

owns 1.5 per cent of Enersis' share capital in the form of Depositary American Receipts traded on the New York Stock Exchange, disclosed to regulatory authori-ties that its vote in favour of a bylaw change was not last month's shareholder

further 32 per cent of Enersis was backed by eight Chilean shareholder meeting for pension funds, known as March 29.

AFPs, which control nearly Endesa believes. on the 30 per cent of the utility basis of the Franklin apparently failed to gain sufficient support among US

The Enersis board yesterby two of the AFPs repremeeting. senting 10 per cent of the Endesa's \$1.45bn bid for a utility's equity, for a vote on the issue again at a second

between them. However, it Resources disclosure and on evidence of the voting intertions of other funds holding funds who hold Enersis Enersis ADRs, that it now has sufficient backing to clinch a statutory change properly accounted for in day approved a call, tabled and implement its equity acquisition. Shareholder endorsement for Endesa taking a controlling stake will

put Enersis at the centre of

seil its 25 per cent stake in the piggest domestic genera-Chile but which has no relationship with the Spanish

Spain's Endesa had vigor ously opposed this disposal. an ambitious investment Energy, the US utilities drive by the Spanish group group.

# Renault set to buy Romanian carmaker Dacia

Renault should next month announce it has reached a milestone in its ambitions to become a more international over. vehicles group with the acquisition of Dacia, Romania's biggest carmaker.

The deal, expected to be give Renault control of the fourth largest vehicles group in central and eastern Skoda subsidiary in the Czech Republic and the Fiat and Daewoo operations in

Renault, made more than is dead," he said.

ault's chairman, said he saw "no major outstanding issues" to prevent the take-

However, he was still waiting for the Romanian parliament to pass new laws granting big foreign invesclosed on April 13, would tors significant tax and regulatory concessions.

Mr Schweitzer has enthusiastically backed the idea of Europe after Volkswagen's Renault developing a cheaper, second brand to spearhead expansion in new

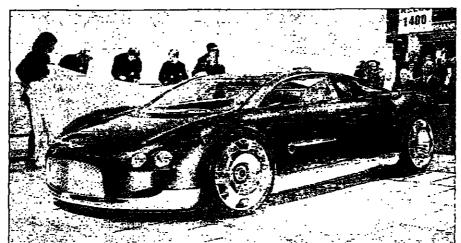
"The idea that high qual-Dacia, which used to have ity cars can only be manua licence agreement with factured in western Europe

Louis Schweitzer, Ren- how much Renault would be paying for Dacia, which is modestly profitable. Analysts have speculated on a price of about \$30m. Mr Schweitzer confirmed

that Renault remained inter-

ested in buying into Nissan Motor, the embattled Japanese carmaker, despite growing signs that DaimlerChrysler may be about to strike a He declined to give any indication of the state of

Renault's negotiations, or whether he thought Renault could beat the much more established negotiating position held by the German-US



### GM reveals expansion plan Fiat to issue €1bn loan

By Haig Simonian in Geneva

General Motors vesterday announced ambitious plans to expand its European sales and market share while recognising demand and pricing in most countries would deteriorate this year.

Michael Burns, president of GM Europe, said he expected European car registrations to drop by between 500,000 and 600,000 compared

dent that Opel/Vauxhall and Saab, its European brands, would improve their shares through new models and improved quality and reliability.

Mr Burns admitted that Opel had suffered from image problems, caused partly by inconsistencies in GM's European strategy. However, he said new

models, such as the Zafira people carrier due in May and the latest Astra small However, GM was confi- family car, would attract

new and previous owners. Audi. the executive cars gen group, confirmed the manufacturer, yesterday ley Dean Witter. gloomier outlook among many carmakers for Europe

this year. However, it said it hoped new models would allow it to raise sales despite more difficult circumstances in many countries. Audi said its European market share in the first two months of this year had fallen slightly compared with 1998.

said it would issue a €1bn (\$918m) five-year loan soon to take advantage of favourable market conditions.

But Paolo Fresco, chairthe group intended to use the new funds, except to say "we have many ways of using them".

The company's Fiat

subsidiary of the Volkswa- Flat, the Italian motor sche Bank and Morgan Stan-

Mr Fresco, speaking at the company's centenary celebrations, would not discuss Fiat's merger.

Asked if it was interested man, did not disclose how in Volvo's truck operations or Scania - the Scandinavian truck manufacturer -Mr Fresco said "never say

Finance and Trade arm has patriarch and honorary Skr216.5.

given the mandate for the chairman, said that the loan to Mediobanca. Deut- group was "still too small" in the current global market and that it was "keeping its open to eres

opportunities". • Investor, the Swedish investment group, said yesdiscuss the future of Scania. the truck and bus maker with potential buyers, sending Scania shares to a high of SKr218.5 a 2 per cent gain. Giovanni Agnelis. Fiat The shares settled at

By Richard Waters in New York

The rift between Lycos and

belief that it would be forced

to renegotiate the merger or

eek an alternative partner.

The rift with CMG Infor

mation Services - which

internet company - came to

the fore as David Wetherell.

chief executive of CMGI.

resigned from the Lycos

Mr Wetherell was a foun-

ding board member of Lycos

when it was created in 1995

One of the most successful

early investors in internet

start-ups, he said he had ouit

to give himself freedom to

pursue better terms for the

The dispute over the value

the deal placed on Lycos

broke out almost as it was

announced and has become

a focal point for the debate

over the high value Wall

Street has put on internet

stocks recently.

board.

owns 18.5 per cent of the

# Bayer, BASF show resilience

By Uta Harnischfeger

Bayer and BASF, the German chemical and pharmaceutical makers, yesterday defied forecasts of disastrous 1998 earnings and it is more sensitive to presproved relatively resilient sure on selling prices as well against the negative effects as lower petrochemical marfrom the crises in Asia and Latin America.

But despite satisfactory earnings, which may cause some revision of analysts' most pessimistic expectations for 1999, observers said it was too early to give the "all-clear" signal for Germany's chemicals industry.

BASF, based in Ludwigshafen warned of more trouble to come. "The chemical industry and BASF are expecting 1999 to be a more difficult year, as a result of sustained pressure on prices," it said.

But despite falling 1998 sales - BASF sales were investors that it perceived down 3.1 per cent to DM54.07bn from DM55.78bn said it would ask sharehold-(€27.6bn, \$30.1bn from ers to approve a share buy-€28.5bn, \$31bn) and Bayer's sales fell 0.2 per cent to DM54.9bn from DM55bn both companies increased their profits. BASF's net own stock is the best investprofit rose 2.7 per cent to ment it can make." said Mr DM3.32bn from DM3.24bn. Trojan. Bayer plans to issue and Bayer's net profit was up 7.3 per cent at DM3.2bn from DM2.9bn in 1997. Both companies' sales were below analysts' expectations, while

By Paul Betts in Milan

Telecom Italia yesterday was

further sharpening its defen-

sive strategy against Oli-

vetti's €53bn (\$57.7bn) hos-

tile bid expected to be

unveiled today after the boards of Telecom Italia and

its 60 per cent cellular sub-

sidiary Telecom Italia Mobile

board would not only exam-

ine today its 1998 results but

also call a shareholders

meeting. Financial analysts

in Milan said this suggested

that Telecom Italia and TIM

were likely to appounce

finally their merger plan as

part of the former's new

much smaller Italian tele-

Carlo Camerana, a board

member of Ifil, the Agnelli-

communications rival.

as a defence against its said.

TIM yesterday said its

(TIM) meet.

Compared with Bayer, whose activities are almost evenly divided between chemicals and pharmaceuticals, BASF earns far more money from chemicals and related products. As a result gins, which have been fall-

ing along with oil prices. Both results are signs that the chemical industry as a whole was seen in too bad a light," said Jürgen Trojan, at Deutsche Genossenschaftszentrale in Frankfurt. Last week, the chemical employers association reported that 1998 industry sales fell 1.6 per cent to DM227.4bn. due particularly to lower exports. For the first three months of 1999

the association forecast fur-

Bayer, based in Leverkusen, sent a clear signal to its stock as undervalued. It back of up to 10 per cent of its shares. "It wants to [show] that its shares are too cheap and that buying its convertible bonds and bond warrants to pay for this. BASF shares closed down

40 pfennigs at DM31.40, while Bayer closed down 20

Italia sharebolder, did not

exclude the possibility of

Franco Bernabe, Telecom

Italia chief executive, had already announced his inten-

tion to merge Telecom Italia

and TIM, said Mr Camerana.

be a merger but the acquisi-

tion of TIM shares, why

Other defensive actions

under consideration were a

possible share buy back, the

conversion of Telecom Italia

non-voting savings shares

into ordinary voting shares,

and the payment of a special

These defences, as well as

Mr Bernahe's new industrial

"If it then did not turn out to

directly TIM shares.

not." he added.

industrial strategy but also dividend, banking sources

# Roche chairman to retire Merger

ful business leader of his generation, plans to step down as chairman of Roche in 2001 after more than 20 years and hand over the to increase its dividend by 5 prepared diversification chairmanship to Franz per cent to SFr87 a share. Humer, Roche's chief execu-

Mr Gerber's decision to Roche, which is still controlled by the same families that founded the business in iirst block-buster drug. Roche

announced a 3 per cent rise in 1998 net income, to SFt4,39bn (\$3bn), and plans Operating profit rose 21 per cent to SFr4.35bn on a 31 per cent rise in sales to announce his retirement SFr24.7bn. Growth in net compound annual growth about the succession at 31 per cent drop in non-oper-

ating income to SFr1 08hn. Roche's previous chairmen. Jarly excited by the pros-1896. Mr Gerber, 69, a law-did not come from the phare pects of Xenical. Roche's the fortunes of Roche, which arrived at Roche in 1978 anti-influenza drug.

was struggling in the 1970s after 20 years at the Zurich after failing to find a replace- Insurance company. He con-Fritz Gerber, probably ment for Valium, the world's tinued to combine the role of chairman of Zurich as well yesterday as chairman and chief executive of Roche, until 1995. Under Mr Gerber. Roche

cut costs, cancelled illmoves, and refocused its research effort. Over the past decade, its

its biggest shareholder widearnings have grown at a ened yesterday, casting fresh doubt on the internet media ends months of speculation income was held back by a rate of 25 per cent and it has company's plan to merge built one of the best new with Barry Diller's USA drug pipelines in the indus-Networks. Mr Gerber, unlike most of try. Analysts are particu-The last significant internet "portal" company to remain independent of a larger media group. Lycos' yer, is credited with reviving maceutical industry. He new anti-obesity pill, and its shares jumped by 18 per cent on the news, reflecting a

# **Buffett warns on margins**

By Tracy Corrigan in New York

Berkshire Hathaway, the investment vehicle run by the legendary investor Warren Buffett, yesterday reported continued growth last year, in its direct insurance operation Geico, but warned that margins will "almost certainly decrease" in 1999. However, investors and Buffett watchers keen to discover whether Mr Buffett has beaten the performance of Standard & Poor's 500 index for the 18th consecutive year will have to wait until Saturday, when the company's annual report will be posted on the inter-

Fiat family holding company which three of Telecom Ital-and influential Telecom ia's banking advisers are also a means of accelerating

seeking to put into place.

The three advisers are Credit

J.P. Morgan and Italy's Imi.

be seeking a preliminary

credit assessment on its

jumbo loan that would bet-

ter the A-rating given to

Olivetti by Standard &

Poor's when it evaluated Oli-

Bankers yesterday expec-

ted Telecom Italia to com-

mand a slightly better rating

than its rival. It had about

€9bn of debt at the end of

would enhance the rating.

strategy, would be backed by dustria, Italy's employers come of the takeover battle.

vetti's hostile bid.

hankers said.

the €20bn syndicated loan confederation, noted yester-

TI was also understood to

ia's banking advisers are also a means of accelerating

last June, while TIM was vir- mitted" adding "but we have

tually debt free. A merger of more than 20 per cent who

Innocenzo Cipolletta, investors is expected to be

director general of Confin- critical in the ultimate out-

biď".

Telecom Italia and TIM are firmly opposed to the

Telecom Italia bolsters defences

Telecom Italia acquiring Suisse First Boston.

Yesterday, Berkshire ber acquisition of General reported net earnings of Re. the US insurance group \$2.8bn in 1998, up from which is now Berkshire's \$1.9bn. The earnings were made up of \$1.28bn in earnlugs from operations and \$1.55bn in realised investment gains. But the year-end

net asset value, which is the

most closely watched indica-

tor of the investment group's

performance, will be disclosed in the annual report. However, at the end of the third quarter, the net asset value was 2.6 per cent down on the year, while the S&P 500 was up 5 per cent, leading analysts to speculate that the company might end its strong run of beating the index. However, the Decem-

and strengthening corporate

Standard Life Investments.

the fund management arm of

Europe's largest mutual

insurer, yesterday gave a further boost to Telecom

Italia by saying Mr Bernabe

now had the support of

investors holding more than

20 per cent of Telecom Italia

European equities at Stan-

dard Life, said that 13 per

cent of Telecom Italia inves-

tors were "definitely com-

The role of institutional

Telecom Italia also con-

Leon de Jerez, head of

largest operating company, is expected to have boosted net asset value.

Geico's underwriting profit margin of 6.7 per cent last year was "well above" target, Berkshire said. General Re was included in Berkshire's earnings for only 10 days of last year.

In addition to the revelations of the annual report, shareholders can look forward to hearing Mr Buffett's words of wisdom when they gather for the ritualistic fes tivities of the annual meeting in Omaha. Nebraska, starting on May 1.

firmed yesterday the resig-

nation of Luigi Montella.

chief executive of its engi-

neering subsidiary Sirti. Mr

Bernabe has already indi-

cated that Sirti was one of

the assets Telecom Italia

planned to dispose of in its

in a separate development.

OP Computers, which took

over Olivetti's former loss-

making personal computer

business, yesterday asked to

be placed in temporary

receivership. Olivetti sold

the company in 1997 to Pied-

mont International con-

American financier.

puters' management,

new business strategy.

Mr Diller - one of the most successful US network television executives before branching into home shop ping - has argued that most internet companies are overvalued. He said last week he retained "an abiding, if temporarily unfashionable belief in arithmetic", and predicted that share prices

would eventually fall. However, while supporting the strategy behind the merger with USA Networks, Mr Wetherell has complained that it short-changes Lycos shareholders. As a board member he voted for the deal in February, but then withdrew his support as the stock market marked down the value of Lycos

trolled by Edward Gottes-Before mann, the UK-based rebound. Lycos's shares had lost nearly 40 per cent of Olivetti holds about 20 per their value since the merger cent of Ptedmont and said it was announced. They were was ready to cancel L88bn trading at \$99 # midday yes-(€45.5m, \$50m) of credits terday in New York, up \$15% owed to it as well as provide on the day but still below financial support to OP Comthe \$137 they reached in early February

**ALUMINIUM** 

### Alcan shares fall after warning over low prices

Shares in Alcan fell 4 per cent yesterday after the Canadian aluminium producer warned that its first-quarter profits would be lower than expected due to prevailing low prices of primary metal, weak European markets for fabricated products and the recession in Brazil.

The company said its first-quarter net income would be 50-60 per cent below the 30 US cents per share - before special gains - recorded in the final quarter of 1998; Analysts had expected earnings of 31 US cents. Net income was USS117m, or 50 cents per share, in the first quarter

The company was the second aluminium producer to months of 1999, blaming low prices and the devaluation of Brazil's currency. Alcan said total shipments for fabricated products during the quarter were in line with the first quarter last year. Alcan shares were down C\$1.70 at C\$36 in morning trading yesterday. Scott Morrison, Toronto

De Beers

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### **Heinz is 'on target'**

HJ Heinz said yesterday it was on track to meet expectations for the year, despite an anticipated reduction in fourth-quarter operating income. The company reported third-quarter earnings per share of 60 cents before excep-

tional items, against 55 cents last time. Hernz said earnings excluded a restructuring charge for \_\_\_\_ and costs related to the consolidation of its Ore-Ida Foods and Weight Watchers Gourmet Foods units. Including these charges, third-quarter earnings were 33 cents (50 cents). Sales in the third quarter rose from \$2.24bn to \$2.28bn. AFX, Pittsburgh

**ENERGY** 

### Fortum falls on low prices

Fortum, one of the largest energy groups in the Nordic region, yesterday blamed lower-than-expected full-year profits on a sharp decline in electricity and crude oil prices. The Finnish company, created by last year's merger of Neste and Imatran Volma (IVO), saw its maiden 12-month profits fall to FM2.21bn (€371m, \$403m) from FM4.9bn on reduced sales of FM50.5bn, compared with proforma turnover of FM60bn in 1997.

Heikki Marttinen, chief executive, warned that Fortum's results would be little improved this year if the market prices for oil and electricity remained at current levels. Th e newly-merged group still saw underlying operating profits fall from FM4.41bn to FM3.54bn. Mr Marttinen said falling oil prices and excess supplies of hydroelectric power had undermined the results. The figures were also held back by a FM202m charge for Fortum's liability for nuclea

Earnings per share fell from FM2.70 to FM1.62. A dividend of FM0.75 has been proposed. In Helsinki, Fortum shares fell 10 cents to €4,70. Tim Burt, Stockholm

**ELECTRICAL MACHINERY** 

### Strong yen hits Omron exports

Omron, the Japanese electrical machinery maker, yesterday issued a profit warning and announced a restructuring plan. Omron, following in the footsteps of Japan's electronic giants such as NEC and Toshiba, said weak global demand and a strong yen hurt exports of its control components. The company said it would cut 2,000 jobs to lower headcount from 18,800 to 16,800 by March 2002. and reduce the number of directors from 30 to less than

The group revised down sales forecast from Y570bn (\$4.7bn) to Y550bn for the year ending March 31, 1999 against last year's sales of Y611.8bn. Omron lowered estimated pre-tax profit before exceptionals from Y14bn to-Y4.5bn, down 89 per cent. The group said it expected to post a net profit of Y2bn against the earlier forecast of Y6.7bn and last year's profit of Y18.7bn profit. The stock closed down Y12 at Y1288. Alexandra Nusbaum, Tokyo

**MOBILE PHONES** 

### **Orange to make Hungary bid**

Orange Communications, the UK-based mobile phone operator in which Hutchison Whampoa has a large sta is planning to extend its overseas presence with a bid for Hungary's third mobile licence. It has formed an alliance with Callahan Associates International of the US, that will be known as the Orange Hungaria Consortium, to consider

The company yesterday refused to indicate the likely ... value of any bid it might make. There could be substantial competition for the third license with British Telecommuni- cations, Vodafone/Airtouch and Mannesmann of Germany. among the likely contestants. Hungary was the first east European country to license a mobile network.

Banking

### UBS sells Julius Baer stake

UBS has sold its 6.6 per cent voting stake in Julius Baer, Switzerland's biggest independent private bank, for SFr123m (\$84m). The family-controlled bank has bought back the 139,973 registered shares from UBS which has

owned the stake for many years.
UBS had 11 per cent of Julius Baer's registered shares and following the transaction the family shareholder pool will now control all the registered shares which represent over 50 per cent of the voting stock. UBS has been setting off its non-core interests since last year's merger with Swiss Bank Corporation. It raised SFr1.9bn from the sale of Banca della Svizzera Italiana and is expected to raise around SFr2.8bn from the sale of its 25 per cent stake in Swiss Life. William Hafl. Zurich

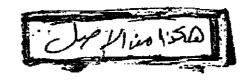
CAR AND TRUCK MAKING

### Saab talks confirmed

General Motors, the largest car and truck maker, yesterday confirmed that it intended to discuss the acquisition of the outstanding 50 per cent interest in Sweden's Saab Automobile this year. GM bought its existing half-share in Saab from Investor, the Swedish investment group controlled by the Wallenberg family, for \$600m in 1989, and has management control.

Under a refinancing deal in 1996, GM received an option: to acquire the other 50 per cent between July 1999 and January 2000. If the two parties do not reach agreement on this, investor has the right to sell half its remaining stake in Saab to GM in the year 2000.

Confirmation that GM will consider raising its stake given at the Geneva Motor Show, by Robert Hendry, the GM executive who heads Saab. Nikki Tait, Chicago



needs no approval to be sold

in other EU countries, unlike

Benecol was launched.

# Unilever acts on cholesterol reducing spread

ing over low prices Consumer Industries Editor

M. Williams

a shares fall after

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m falls an low price

The race to bring the first cholesterol-reducing spread intensified yesterday when one of the two companies involved took the other to court for trademark infringe-

Unilever's Dutch subsidiary started summary proceedings in the district court in The Hague against the makers of Benecol, a spread already on sale in Finland, to associate it with heart alleging the name was too

De Beers

earnings

halve to

\$617m

De Beers, the South African

the world diamond market,

yesterday announced a halv-

ing of its total net profit last

year to \$617m from \$1,23bn

in 1997, but said there had

been tentative signs of

improvement in the market

Nicky Oppenheimer, chair-

man, described 1998 as "a

very difficult year" in which

sales by the De Beers-

controlled Central Selling

Organisation fell 28 per cent

The final combined divi-

dend was 52.3 cents, and

total dividends per linked

unit fell 22 per cent in 1998

to 80.2 cents from 102.8

the results of Johannesburg-

based De Beers Consolidated

the harsh trading conditions.

but said dividend cover had

The results were at the

lower end of analysts' pre-

dictions, and De Beers

shares in Johannesburg fell

Diamond stocks were

\$4.82bn at December 31, up

8 per cent from the previous

figures had been affected by

companies. De Beers, part of

the Anglo American con-

glomerate, has been simpli-

fying its cross-holdings with

other members of the group

as Anglo prepares to move

The diamond market dete-

riorated in the second half of

improved in 1999 after a

strong Christmas in the US.

centres had been run down

as a result of De Beers' sales

reduced supplies from war-

torn Angola and the Demo-

De Beers, however is main-

taining a cautious stance

boost overall sales signifi-

markets in Japan and south-

cratic Republic of Congo.

last year but the mood had

R6 or 5.6 per cent to R100.

nary AG of Switzerland.

fallen anyway.

to \$3.34bn.

since the start of this year.

By Victor Mallet In Johannesburg

similar to its own Becel brand.

The Anglo-Dutch consumer group, which hopes to launch its own "Flora proto European consumers activ" cholesterol-busting care, a subsidiary of Johnson spread in Europe within a & Johnson, the US group. few weeks, also says plans to market Benecol as healthy for hearts would damage the positioning of Becel.

Unilever has built Becel into the market leader in Belgium, Netherlands and Luxembourg over 35 years with a marketing campaign

group that controls most of multimedia age, says Michiyo Nakamoto

which has let the explosive

way the group operates.

pass it by.

its," he says.

falling prices.

By Jim Kelly

De Beers said. Stocks of shrugged off any effects of

restriction over the past 18 | 25 per cent surge in global

months and because of revenues in 1998 to \$8.3bn.

cantly this year unless retail | separate development.

cast to fall 21 per cent.

Japan wakes up

late to potential

Sony's surprise revamp is an attempt

to scale down manufacturing and join the

Sannouncement is a not been a big beneficiary of wake-up call for Japan. the internet age and of net-

of the internet

Raisio, the Finnish food and chemicals group, and mar- Finland in 1995, where it keted outside Finland by

Both companies are racing to introduce their cholesterol-busting spreads in Europe and North America (where Unilever's will be called Take Control).

The two spreads both reduce "bad" cholesterol in Benecol in several EU marthe bloodstream, with kets and could delay its sale are "generally recognised as studies showing the risk of in the Benelux countries. safe" (GRAS). coronary heart disease Unilever's Flora pro-activ

Benecol is produced by reduced by up to a fifth. has been approved by the invited to submit to the Benecol was launched in Dutch novel foods regulator, GRAS procedure, which but has yet to clear the should take no more than 90 sells at six times the price of 60-day period during which conventional spreads. It regulators from other EU countries can object. In the US, Unilever's Take

Unilever's product which Control is believed to be has to be approved under ahead of Benecol in being novel foods legislation intro- approved by the Food and duced by Brussels after Drug Administration. The two products are being The legal case comes as investigated under a new McNeil is close to launching procedure that requires them to demonstrate they

Both companies were

Norio Ohga, Sony chairman (left), and Nobuyuki idel, announcing that the group will cut 17,000 jobs AP

eigners so we need to be con-

low, we might be taken

panies "are virtual portable

companies. They are con-

have manufacturing facili-

ties so we are a little differ-

somewhat more similar to

what Sony sees as a model."

he says.

year yet with revenues firms are appearing before a companies. Arthur Ander- Pacific. It has 65,000 staff

results - at least comparable recruited over 400 top gradu-

But there are no business

over," he warns.

days to complete, at the end of last year. Approval under this procedure would not allow the spreads to be promoted as healthy without submitting to the much longer process for vetting

McNeil believes Benecol will find a ready market despite such restrictions, cians of the benefits of reducing cholesterol.

health claims. with widespread awareness among consumers and physi-

# Zurich adds \$1bn charge to lift reserves

By William Hall in Zurich and Andrew Bolger in London

Zurich Financial Services. formed from last year's merger of Zurich Insurance and BAT Industries financial services arm, is adding an extra \$1bn to its already announced \$1.4bn restructuring charge, mainly to strengthen its reserves after Zurich and Zurich Allied. the acquisition of Eagle the two quoted holding com-Star's underperforming nonlife insurance business.

reserves was the main reason the terms of the merger had been renegotiated and Zurich Insurance's stake had 2000. risen from 55 per cent to 57 per cent of the combined announced more than a year entity. However, at the time of the merger there had not time \$1.4bn restructuring been enough evidence to charge for 1998. The figure prove that BAT's Eagle Star insurance business was not adequately reserved.

integration of BAT's finan- half, would be used to cial services businesses increase underwriting would inevitably lead to reserves consistent with the additional job losses and office closures in the UK. To Zurich Group, the Swiss date, the group has partner. announced 1,600 job losses, most of them in the UK. ZFS is also taking an additional had earmarked for the \$200m of restructuring strengthening of non-life

which now total \$800m. insisted the need to boost recent claims experience. It reserves had not shaken his primarily reflects US and UK enthusiasm for the merger, asbestos and pollution haz-

ing faster and proving to be more extensive" than planned, and be expected annual costs savings would increase from the already announced \$100m to \$500m by 2001.

Zurich's decision to boost its restructuring charge by 70 per cent led to a sharp drop in the shares of Allied panies of Zurich Financial Services (ZFS). Lewis Rolf Huppi, ZFS's chief Phillips of Fox-Pitt, Kelton executive, said the need for in London, said the news the additional increase in was "disappointing" but it would not alter his estimate that the group would earn \$2.8bn in 1999 and \$3.3bn in

When the merger was ago Zurich disclosed a onewas reconfirmed at last September's half year results and Zurich indicated that Mr Hüppi said that the \$700m-\$800m. or more than existing standards of the

However, the group now plans to double the \$800m it charges and writedowns, technical reserves to \$1.6bn after a review of all non-life However, Mr Hüppi insurance liabilities and The integration was "mov- ard exposures.

# Gucci chief agrees to reopen LVMH talks

By lan Bickerton in Amsterdam and Alice Rawsthorn in London

of Gucci, the embattled Italian (ashion company, has share option plan (Esop). agreed to reopen negotiations with LVMH, the man Sachs, asked a Dutch French luxury goods group, court (Gucci is quoted in legal battle between them.

However, Mr De Sole did the court froze the voting not appear to have softened rights on both the Eson his attitude towards LVMH's shares and those of LVMH in proposals to forge a trading a preliminary ruling pending relationship with Gucci. "We a final hearing due to start have done a tremendous job on April 22. of running this company and don't need any help from anyone," he said.

The two groups have been at loggerheads since LVMH, to reopen discussions in a which owns the Givenchy and Louis Vuitton luxury brands, revealed earlier this year that it had stealthily acquired a 34.4 per cent stake in Gucci.

Bernard Arnault, LVMH's chairman, has since striven ations on the basis of a to persuade Gucci to collaborate with his group. He and Mr De Sole started discussing a standstill agreement on LVMH's rights as a shareholder last month, but failed

to agree terms. The conflict flared up when LVMH proposed be obliged to do if the comadvised by Morgan Stanley, Amsterdam.

announced it was issuing 20m new shares (the same number as LVMH owns) to a newly created employee LVMH, advised by Gold-

opposed the request and

Esop unlawful. Last week,

It also ordered the two groups to try to resolve their differences by negotiation LVMH immediately offered letter to Mr De Sole, who

accepted that offer in a letter sent vesterday. So far, neither side shows any sign of moving from its original position. LVMH proposed recommencing negoti-

standstill agreement, which was rejected by the Gucci board last month. Nor is there any sign of compromise by Mr De Sole. who has maintained that LVMH should make a full bid for Gucci, which it would

### enjoyed our most successful east Asia improve. PDVSA's oil dream evaporates

Andersen Consulting, first redesign of its logotype

which became a stand-alone and an aggressive sponsor-

business in 1989, has ship campaign of special recorded three years of events: "A powerful brand

growth of 25 per cent or name is critical if Andersen

ceedings with its sister firm and India.

Arthur Andersen to report a

and says it will be hard to more. It will see this success Consulting is to differentiate

"In Europe we have Ellis.

Raymond Colitt examines the critical situation for Venezuelan producers and workers

recent weeks. The grand to meet the needs of an oil world's top three oil produc-their capacity and have fired the next 10 years. ers have all but evaporated. some 30,000 workers.

The collapse in global oil of draconian budget cuts diate hope for a recovery of cost-cutting measures - it is plans are already facing prices has triggered a series that have plunged the econ- the public oil sector," says also the intent of the new omy into deep recession. Luis Eduardo Paul, head of government to shrink and labour alike. They have while increased intervention by President Hugo Chavez's petroleum companies. ministers threatens to downsize the company further.

Like other oil companies, nues plummet over the past 10 years. Even so, it still has state within a state and PDVSA has seen its reve-18 months as a result of an estimated financing lashed out against allegedly declining oil prices. But in requirement of \$2.4bn. bear the brunt of a 525,000 Mandini, PDVSA's new pres- increased government interaddition, PDVSA has had to barrel per day production ident, sought to placate vention in PDVSA when he cut that Venezuela agreed employee concerns, saying appointed two military offilast year with other leading oil producing countries in an salary reductions. Yet he finance/personnel and planattempt to stem dwindling also announced austerity ning departments. To help prices. Crude oil exports measures across the board prices. Crude on exports measures enter the government is now or petrochemicals - will proculd reap as little as \$9.5bn and hinted at personnel cit, the government is now or petrochemicals - will proculd reap as little as \$9.5bn. this year, down from more reductions. "We will reduce than \$18bn in 1997.

roaring ahead at a 9.5 per not directly generate cent growth rate in 1997, it results," he said. year and is expected to fall restructuring that began Sosa Pietri, former PDVSA year and is expected to tall 1998 and merged president. "If things con- See Commodities by another 1-2 per cent this early in 1998 and merged president. "If things con-

and there appears no imme- are behind the most recent Venezuela's association of PDVSA so as to free

spending by more than increased social spending. 36 per cent of its 1999 budget, already the smallest in

Earlier this week, Roberto there would be no immediate or eliminate all aspects of While the oil sector was our administration that do from PDVSA.

The mood at Petroleos de year. Hundreds of service subsidiaries along functional tinue at this rate, the com-Venezuela, the state oil com- and supply companies, rather than regional lines, pany is going to lose its pany, has been gloomy in which had been gearing up about 14,000 of the 42,000 employees are estimated to expansion plans to double its sector - set to expand in the be surplus. According to output and secure Venezue next decade - are now oper internal company proposals, la's position as one of the ating at 30 to 50 per cent of most are to be laid off over

converging market," said Mr

Yet analysts say it is not "The situation is critical only falling oil prices that human capital. PDVSA is having to cut nomic activities as well as

> accused PDVSA of being a lavish spending by its executives. He heightened fears of cers to run the company's

government is decapitalising expansion plans. Following a big corporate the company," says Andres

competitiveness."

Critics say excessive austerity at PDVSA will not only diminish its production capacity and hence its future fiscal contribution, but could also provoke a flight of

Yet the government's opposition from business warned it not to extend or resources for non-oil eco- deepen production cuts at the meeting of the Organisation of Petroleum Exporting Mr Chávez has repeatedly Countries later this month. Unemployed oil workers in the port city of Barcelona went on hunger strike last

week demanding jobs. Many Venezuelans acknowledge the country's over-dependence on oil. Yet few see an immediate alternative to it. "The problem is that none of the government's proposed alternatives tourism, agriculture, gas increased dividend payments the short term," claims Mazhar Al-Shereidah, a "It is being run down. The critic of PDVSA's former

See Capital Markets



US\$100,000,000 Floating rate notes 2003 The notes will bear interest at 5% per annum for the period 10 March 1999 to 10

payable on 10 September 1999 will amount to US\$127.78 one aton 000.222U tec US\$2,555.56 per US\$100,000

Global Agency and Trust Service Citibank, N.A., London 10 March 1999 **CITIBAN(** 

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US\$10,000 note and

10 March 1999

una to US\$ I2.78 per

US\$1,000 note, US\$127.78 per

CITIBANCO

# THE EDINBURGH INVESTMENT TRUST PLC

The Lord Onlinery appoints the petitive to be inturated on the walk in common torm and to be advertised once in The Edinburgh Cazette and in each of the Financial Times and Scotsman towardspens and appoints all parties claiming an interest to kulge Answers thereto, if so advised, within 21 days after such intimution and advertisement. Runaki D Maskay

All of which munication is bereby given Maclay Murray & Spens Solutions for the Petitioners 3 Glenfinlas Street Edinbarch EH3 640

Halifax Plc US\$500,000,000 Floating rate notes September 1999 U.S. \$300,000,000 Nodce is hereby given that the notes will bear interest at 5% per sunum from 10 March

Undated Variable Rate Notes Notice is hereby given that the Rate of interest has been fixed a 6.00% and that the interest ayable on the relevant interest syment Date June 10, 1999 against Coupon No. 39 in respe

Notice of Redenomination to Bondholders of **BANQUE NATIONALE DE PARIS** ITL 150,000,000,000 Floating Rate Perpetual Step-Up Subordinated Notes ISIN: XS0086000667 issued under the programme for the issuance of debt instruments

Banque Nationale de Paris has decided to redenominate the above 1964es in accordance with Paragraph TitaRedemonistration of the Schedule to the Pricing Supplement dated April 14, 1998

Redenomination Date April 17, 1999 New minimum denomination will be 1 cent.

Redenomination Method Clients position will be redenominated in book - entry torm. There will be no physical exchange of securine

Redenomination Basis The nominal ITL amount for each Note shall be converted into euros by using the Fixed Conversion Rate and rounding the figure to the nearest cent, with 0.005 euro being rounded upwards.

Cash Compensation
There will be no cash compensation

With effect from the Redenomination Date, the day-count fraction referred to in paragraph 31 of the Priorig Supplement will cease to be ACT/360, and shall be on the basis of the actual number of days elapsed divided by the actual number of days in the period from and including the immediately preceding interest payment date to but excluding the next scheduled interest payment date (Actual/Actual).

Any reference to business days in the pricing supplement shall be deemed to refer to a day on which the Trans-European Automated Real-time Gross settlement Express Transfer system («Taiget») is open. ISIN Code

The ISIN Code of the rodenominated Notes shall be 350095483276.

Dated March 10, 1999 Banque Nationale de Paris (Luverniocurg) S.A. As Redenomination Agent

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ling a unit. By abribute ubstan-

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growth in internet-based driving the US economy. computer services largely "Japan is way behind in the internet and the gap is The plan Sony presented widening," he warns. There to reduce its manufacturing are no businesses comparacapacity and consolidate its ble to those in the US that electronics businesses to are thriving as a result of focus on networks aims to the internet.

working businesses that are

surprise brand recognition, Sony has

fundamentally change the "People like Steve Case at AOL are like rock stars and "It is a fundamental they make Sony look like part of the establishment." restructuring." emphasises Nobuyuki Idei, president and he says somewhat forlornly. If Sony is to break out of

joint chief executive. "We have to restructure while we that establishment mould cents. The figures combine can while we still have prof- and join the new "stars" of the multimedia age, it can-There is a hint of urgency not remain a conventional Mines and De Beers Cente- in Mr Idei's tone. That is not electronics manufacturer, surprising, given that Sony content to simply manufac-Mr Oppenheimer called it | is expected to report a loss ture hardware, no matter "a prudent dividend" given in the fourth quarter for the how advanced the technol-

first time in four years. In the year to March, consoli-Through his latest reorganisation, Mr Idei is trying dated pre-tax income is foreto transform Sony into a company that is more in The company's electronics business, its biggest revenue tune with the new age in earner, has suffered a plunge which software and the disin-profitability due to weak tribution of contents prodemand in key markets and vides the added value that is critical to the success of the

Andersen Consulting time," said Vernon Ellis, over their long-running turf remained robust.

managing director for war in which both have

Meanwhile the two sister gic advice for multi-national

But more importantly, Mr hardware. As such, manufacturing is year, but Paddy Kell, finance | Idei is in a hurry to transdirector, said this and other form Sony into a company no longer the critical activ- that are increasingly real- bank comes closest to pro- action is taken quickly (to | in an attempt to resolve the Amsterdam) to declare the that is squarely at the fore- ity it used to be for Japanese ised in network businesses. viding Sony with a business meet the challenge of the the consolidation of CSO front of the multimedia age. electronics manufacturers. If Yesterday's reorganisation model. Softbank, founded by internet, it will be a tremen-In spite of its vast techno- Mr Idei could have his way, lays the organisational foun- Masayoshi Son, its contro- dous waste," he says. logical wealth, its software he would get rid of more dations for that shift. assets, superior marketing manufacturing facilities that

because they destroy, rather are forcing it to transform investments in internet busithan create, value. itself, the pressures the com-"Sony should not do OEM" pany faces to raise share-in Yahoo!. itself, the pressures the com- nesses. It is a shareholder in business. We don't want to holder value are equally be a sub-contractor to com- strong. puter manufacturers. There "About 40 per cent of me that even though Sony is are areas (which we don't Sony's shareholders are for- a big company, we are doing

need), like the manufacturing of CD-ROM drives. It is cerned about shareholder laughs. difficult to quit but it will be value. If our share price is so done within one or two years," he says. PlayStation. Sony's phe-nomenally successful models Mr Idei can turn to. Much as he seems to admire video games machine. AOL and Yahoo!, these comsucceeded in part because

Sony Computer Entertainment - the company that tents aggregators, but we makes it - was able to use Sony's manufacturing facilities rather than build its ent. In that respect, Dell is own. Mr Idei points out. The added value that Sony needs to offer will come from the synergies of hardware. software and distribution

market. Observers expect

with leading competitors -

will be put forward as evi-

dence that the dispute has

blurred the firm's focus on

providing high-level strate-

substantial claims.

Mr Idei points out that Softexpertise and unparalleled stand in the way of success Sony's market environment through acquisitions of and that fate.

Arthur Andersen's UK rev-

Somewhat surprisingly,

models Mr Idei can turn to. make Sony headquarters an

Like Mr Son, Mr Idei has clearly been converted to the pursuit of value in the opportunities opened up by the internet. The same can

"I am very close in think-

ing to Son. He always teases

the same thing," Mr Idei

Like Softbank, which is

almost like a holding com-

pany, the reorganisation

announced yesterday will

"active investor", less

involved in the day-to-day

operations of each of the

businesses and more focused

on overseeing the group.

not be said of Japan as a whole, "There is so much potential in Japan. Unless versial president has grown Sony's latest move is no While the changes in at a phenomenal pace doubt calculated to avoid

# its headquarters and primary stock exchange listing to London in May. Branding buoys Andersen Consulting

exceeding \$3bn for the first Paris court of arbitration sen's results have also compared to 21,000 a decade Its largest industry practices grew strongly in 1998 ~ financial services jumping munications 30 per cent to \$1.2bn, and energy up 41 per cent to \$614m. Chemicals

> est increases. The firm invested \$595m in internal training – up 38 per - and \$588m in research and (appointing a nominee direc- pany was quoted in London

rough diamonds in cutting its protracted separation pro- Europe, Middle East, Africa clashed in the consulting enues touched £545m (\$872m) - up 23 per cent - with more Andersen Consulting the court to break their than £50m of last year's reve- 33 per cent to \$2.5bn, cominvested heavily in brand remaining ties - but at a nues coming from overseas building in 1998 with the price. Both firms have made placements of UK staff. "We increased our reve-Andersen Consulting's nues by nearly a quarter and and health services, both jumped 42 per cent, the larg-

ates," said James Hall, UK managing partner. The firm's revenues grew as vindication of its policy of itself from competitors in a not sapped energies or at 24 per cent in the Americant over the previous year cas, 83 per cent in Europe, Middle East, Africa and development - up by 29 per tor to Gucci's board. Gucci, or New York, rather than India, and 1 per cent in Asia

LEGAL NOTICES AY/TJE/114K23-7/EER

> INVESTMENT TRUST FLC.
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> A Petitian having been presented to the Coun of Session on 24 February (1990 by The Edinburgh Investment Trass public company, a public company an originated addition of Charlotte Square, Edinburgh, EH2 40°Z, for confirmation of a reduction of its capital, the Count protonneed the undermated interfection of 25 February (1999) Edinburgh, 36 February 1999

Bank of Ireland

US\$1,277,78 per US\$100,000 Global Agency and Trust Services, Cliberik, N.A. London Global Agency and Trust Services Crobank, N.A., London March 10, 1999

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Notes will be US\$1,593,98.

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# Caradon starts cost cutting

Caradon, the building products group, yesterday accelerated its rehabilitation with investors with plans to increase sales and protect profits by cutting both prices

Júrgen Hintz, who took over as chief executive last May, said: "Too many Caradon businesses have been uncompetitive, losing market share and volume year after year. We aim to rebuild our market shares by offering superior value to customers, underpinned by cost

sharply underperformed the sector since their peak of 439p five years ago, since when they have fallen steadily. So far this year, though, they have outperformed the market by more than 40 per cent as the group made progress with dispos-

Christopher Grant, an analyst at BT Alex Brown, said Mr Hintz had "done a very good job. Caradon has had a woeful track record in terms of shareholder value since 1983 - it's been destroying value. Hintz is beginning to put things right but it will be long drawn out process. Caradon's shares have In his initial year he's done

vesterdav Caradon

reported a £134.1m pre-tax loss for 1998 against profits of £129m. The loss was after £249.2m of exceptional charges mostly related to disposals where previously of a main customer and the written-off goodwill had to be written back. Turnover fell 4 per cent to £1.29bn. The shares fell 9p to 149p.

group has sold six businesses for £80m, including sions had suffered from its Everest windows operation, and it is in talks to sell another four.

The disposal programme will leave Caradon with 24

compared with more than 60.

cent to £119.3m. The Burnpean plumbing and electrical businesses suffered from Profits from plumbing fell

a third to £32.1m and profits from the electrical division fell 4 per cent to £24.3m. Mr Hintz said these divi-Margins would suffer in the short term but they would be restored by heavy cost.

# Rhodia may bid for Albright

By Lucy Smy in London and Tracy Corrigan in New York

chemicals group, yesterday confirmed market suspicions that it was interested in hidding for Albright & Wilson. just a day after Albemarle, a US rival. bid £408m (\$656m)

Shares in Albright rose 8 per cent to 140p on the

expectation that any offer higher than Albemarle's offer of 130p a share. Rhodia said it had been in preliminary discussions with Albright.

Analysts said a merger with Rhodia, which is 68 per cent owned by Rhone Poulenc, the life sciences company, would have more obvious product overlaps and potential for cost savings

are surfactants, used in partner, for the Solutia busidetergents, and phosphatebased chemicals. Rhodia also specialises in these, while Albemarle mostly makes

did not expect Rhodia to make an offer before it was clear whether Albright had succeeded in purchasing the phosphates arm of Solutia of

Albright's main products joint bid with PCS, its US nesses which are valued at more than \$200m.

Rhodia said it was espe Albright's phosphates busiment on whether it was also looking at Solutia's phos nhates arm.

Albright is advised by Lazand Brothers.



# Resilient performance in difficult trading environment

Preliminary results for the year to 31 December

	1998	1997
<b>OPERATING PROFIT PRE-EXCEPTIONAL</b>	S £1,550m	£1,591m
PRE-TAX PROFIT	£738m	£875m
EARNINGS PER SHARE	<b>22.2</b> p	26.6p
ADJUSTED EARNINGS PER SHARE	46.1p	49.1p
DIVIDENDS PER SHARE	24.0p	

- Operating profit, at £1,550 million, was 1 per cent higher in local currency before US tobacco settlements costs and a sales tax recovery in Brazil.
- The decline in pre-tax profit and earnings per share was principally due to the initial costs of the US tobacco settlements of £613 million (1997: £258 million).
- Against a global cigarette market which is estimated to have declined, Group volumes for the year were slightly ahead with the growth rate moderated by reduced volumes in the US and Asia-Pacific. There were good performances in Latin America, Europe, Amesca and
- The Board is recommending a final dividend of 16p, which will be paid on 1 July. At the time the proposed merger with Rothmans was announced, a special interim dividend of 4p for 1999 was also declared, which will be paid on the same date.
- "The focus of our attention in 1999 will be on managing the business in line with our long term strategy in a difficult trading environment. We will also be ensuring that the integration of the Rothmans business, once the necessary shareholder and regulatory approvals have been received, goes as smoothly as possible."

Martin Broughton, Chairman

NEWS DIGEST

ENGINEERING

world car markets.

### **BBA** moves towards high-margin products

BBA Group, the engineer, yesterday unveiled plans to increase its revenues from services and high technology materials. Roberto Quarta, chief executive, suggested the group would shift its emphasis away from its automotive division, which is seen as vulnerable to a downturn in

Mr Quarta's plans reflect industry worries that engineering groups will find it hard to prosper if they remain suppliers of low-margin commodity products. Last week Cookson, the industrial materials group, said it would focus more on engineering services in an attempt to overcome

Mr Quarta said BBA would concentrate on developing two divisions that together account for almost 80 per cent for corporate jets; and nonwovens, which makes absorbent materials used in products from timber cladding to nappies. "The key for BBA is to become a provider of value-added solutions for our customers," he said.

He said services accounted for 36 per cent of sales against 15 per cent in 1993. Over the same period the group had increased the proportion of turnover derived from consumer items from 10 to 36 per cent.

His comments came as BBA revealed pre-tax profits for 1998 ahead from £156.7m to £164m on sales up 1.5 per cent at £1,21bn, Michael Peel

### Senior hints at non-core sell-off

Senior Engineering Group yesterday hinted that it might sell one of its divisions as part of its plan to become a specialist manufacturer of flexible metal tubes and bellows. The group said it was focusing on developing its core flexonics businesses, which makes materials capable ofwithstanding extremes of temperature and acidity. "It follows that anything else is non-core", said Andrew Parrish,

- A &:\_\_

His comments raised the prospect that Senior might sell its engineered products and services division, which accounts for 29 per cent of group sales. Mr Parrish decribed the division as "very much the rump of the old Senior". The engineered products division is growing more slowly and achieving lower profit margins than the group's other businesses. Engineered products made operating profits of £7.4m last year on sales of £151m.

Senior yesterday unveiled 1998 pre-tax profits £6.4m higher at £49.5m, after a goodwill write-off of £1.1m. Sales rose 6.3 per cent to £509.6m. Michael Peel

### TRW extends LucasVarity bid

TRW, the US steering systems and spacecraft equipment manufacturer, has extended to March 25 the acceptance period for its £4bn cash offer for LucasVarity, the UK-listed automotive components supplier. TRW said it had control of 44.8 per cent of LucasVarity after receiving acceptances representing 37.41 per cent of the group.

### HOUSEHOLD GOODS

### Japan hits Waterford Wedgwood

Waterford Wedgwood, the Irish luxury goods company chaired by Torry O'Reilly, yesterday said sluggish demand from Japanese tourists had undermined an otherwise "creditable" annual performance.

Richard Barnes, finance director, said: "The slowdown in Japan has hit our domestic business there. Japanese tourists have also cut down their travel to other Asian markets. as well as to Europe and the US."

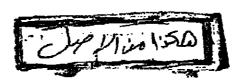
The company said sales in its Wedgwood china and ceramics division had fallen 5 per cent and operating profits 35 per cent as the Asian crisis continued and the strong pound hit exports to continental Europe. However, strong demand in the US helped lift sales in the Waterford crystal business by more than 15 per cent and operating profits by 40 per cent. in 1998 pre-tax profits rose 22 per cent to 1£14.9m (\$20.4m). Part of this increase was the result of a reduced restructuring charge of IS24.6m, down from last year's IS27.8m. Group turnover grew 38 per cent to I£575.3m (I£417.2m), of which more than one-lifth came from Rosenthal, the German porcelain business acquired

### Coats rejects merger talk

Coats Viyella, the textiles group, has rejected speculation that it might participate in further consolidation in the industry. Michael Ost, chief executive, said: "We have looked in some depth [at the benefits of a deal with another UK clothing manufacturer) and cannot see how it would create shareholder value."

The comments accompanied an 18 per cent fall in 1998 operating profits from continuing operations to \$117m. Profits were hardest hit in the UK, where Jaeger, the fashion retail brand, and the home furnishings side were affected by the retail slowdown and price pressures.

rits for the year ended 31/12/98 will be delivered to the Registrar of Companies and carry an unqualified audit report.



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# German jobs figures encourage bourses

### **EUROPEAN OVERVIEW**

By Florian Glmbel

European shares moved higher yesterday encouraged by lower-than-expected German unemployment as well as record French consumer confidence.

All eyes were on the US as markets expected the recent to an end.

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US shares opened gener- limited damage to the euro- performances yesterday. inflows to equity mutual lity weaker, but rebounded zone. They were responding to funds, which invest in euroally weaker, but rebounded zone. later on higher productivity

liquidity for most of the trading day, as some investors diverted funds to newly upbeat Asian markets.

But most analysts agreed rally on Wall Street to come that the drain of European capital was to cause only

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"The total holdings of Japanese and other Asian stocks In Europe, however, the by European investors only markets faced lacklustre amounts to \$150bn, comsentiment and dwindling pared with a European-wide market capitalisation of \$8,000bn," said Richard Davidson at Morgan Stanley

Dean Witter. entertainment companies with Telecom Italia. put in some of the strongest

FTSE Actuaries Share Indices

zone stocks, has been disapcontinuously high consumer pointing, according to a spending.

Telecoms also ended higher on the back of ongo-Smith Barney. ing merger talk in Italian telecom sector.

Shares in Telecom Italia Mobile closed 4.58 per cent age in 1998. higher at €6.39, due to specu-Shares in leisure and lation over a possible merger On a more general note,

·European series

weaker than expected at \$3.6bn, with the outlook for February's inflows being equally subdued. The report highlighted a possible supply imbalance in this year's second quarter, as \$34bn new issues were

recent report by Salomon

December's inflows were

January's figure was

at a low of \$2bn, compared

with a \$6.7bn monthly aver-

demand.

The FTSE Eurotop 300 index advanced 6.84 points to 1.239.35, while the FTSE Eurotop 100 increased 23.70 south Amica South Kinica South Kini demand. to 2,859.44.

The FTSE Ebloc index of

leading stocks in the eurozone settled 1.95 points higher at 1,009.77.

**CURRENCIES & MONEY** EURO SPOT FORWARD AGAINST THE EURO 38.1123 -5.1 38.4018 -4.8 39.7024 7.4347 -0.3 7.4377 -0.3 7.4607 323.2936 -6.8 328.5078 -6.3 340.0638 253.2130 -12.9 258.9027 -12.4 279.6860 -4.6 8.6355 -3.9 8.7650 Europe Czech Rep 38.0550 37.6290 38.1123 7.4369 7.4223 7.4347 321.900 321.250 323.2596 251.380 269.940 253.2130 8.5680 8.5450 8.5848 4.2812 4.2490 37.4591 +0.3468| 201 - 800
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### Netional & Regional Markets expected to meet with little Euro Index change points yad (Euro) € FTSE Eurotop 300 FTSE Eurotop 100 FTSE Bolor 100 FTSE Eurotop FTSE Eurotop Ebloc +0.55 +0.84 +0.19 +0.27 -0.31 +0.09 +8.84 +23.70 +1.95 +3.29 -3.57 2.16 2.14 2.00 2.78 2.34 2.17 3 14 8.57 9 74 2.36 1.55 1.14 FTSE EuroMed Ex UK FTSE Eurolop 300 1261.52 1212.15 1227.52 1255.85 +0.19 +1.09 +0.93 +0.27 +2.35 +13.11 +11.32 +3.34 1.96 2.53 2.38 1.97 1 18 7.13 5.16 0.91 1280.46 1276.86 1280.28 RESOURCES 916.08 +0.64 +5.87 3 17 3.69 907.21 +1.13 +16.10 +0.62 +5.41 4.01 3.13 21.37 949.18 2.82 908.49 Mining Oil & Gas 1072.90 +0.08 +0.88 1098.37 +0.20 +1.58 2.47 1.13 0.00 828.60 +0.12 +1.26 1040.21 941.95 Forestry & Paper 900.77 -9.61 GENERAL MIDUSTRIALS 1115.59 +0.78 +8.65 2.27 3.28 1142.70 Aerospace & Defence Diversified industrials Bectronic & Bect Equip Engineering & Machinery 799.59 948.87 1012.97 -1.20 -0.04 +1.63 +1.13 -9.73 -0.36 +16.28 2.15 2.15 1.90 2.92 813.49 970.37 1023.76 1043.88 1025.40 +11.42 CYCLICAL CONS GOODS 1255.58 +0.64 +7.95 227 0.00 1290.13 tomobiles 924.68 espinati Goods & Texts 1281.02 +0.54 +1.16 HON-CYC CONS 6000S 1243 01 +0.70 +8.67 1.48 1279.87 2.87 1.71 1.24 1.17 0.90 1.16 3.56 +2.52 +0.50 -0.12 +1.20 -1.89 0.00 0.00 0.00 3.25 1.42 1396.76 -26.96 CYCLICAL SERVICES 1340.86 +0.82 +10.86 2.27 1.74 1381\_97 594.38 1097.73 1002.30 1250.19 882.08 1078.36 +3.89 +0.25 +3.68 +0.97 911.92 1090.90 979.25 2.65 959.72 -0.78 -7.57 MON-CYCLICAL SERVS 1391.64 +0.88 +12.16 1.37 0.48 1432.88 1010.58 -040 +115 -4 05 0.51 0.43 1418.46 -0.24 3.13 5.17 1509.63 TILITES -346 +0.69 -0.10 +8.22 3.26 163 1713.89 1075.08 -3.77 1304.78 +0.42 +5.52 -0.82 -0.41 +0.23 +1.13 +5.40 +0.41 5.82 0.97 0.96 0.90 1.67 0.00 Banks Insurance Life Assurance +7.53 928.74 -3.98 -2.68 +10.99 -25.62 +3.77 976.30 1153.94 987.34 775.84 926.96 1169.89 1004.88 890.77 942.34 Investment Companies Real Estate Specialcy & Other Fin 954.94 -0.04 0.65 0.04 957.26 ZAFORMATION TECH -0.35 Information Tech Hardware 1037.55 Software & Computer Serv 764.62 +0.83 -2.71 +8.53 -21.31 0.70 0.50 Future contrated in a parameter of the large Special Country agreement (1934) At agree service (1935) and the first country of the large of the large Special Country and the first country of the large special country of

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year	3.11	314	5.42	5.45	1.80	1.64	5.33	5.36	0.21	0.24	IN SOVEREIGNS	-				•	-	•	
year	3.18	3.22	5.43	5,46 5,50	1.80 2.03	1.88	5.56 5.58	5.59 5.71	0.36	0.39 0.82		· · ·					. 0.00	+0.10	+0.1
year	3.34	3.38 3.58	5.46 5.46	5.50	2.03	2.11 2.30	5.78	5.79	0. <del>59</del> 0.86	0.62	UK.	01/01	4.250	AAA	101.807 103.669	3.24 3.36	+0.03 +0.04	+0.10	+0.1
year	3.54 3.73	3.77	5.44	5.48	2.40	248	5.82	5.R5	1.14	1.17	Denmark	01/02	4.750	AA+	103.154	3.30 3.26	+0.02	+0.10	+0.1
year	3./3	3.95	5.44 5.43	3.48 5.47	2.56	2.64	5.87	5.90	1.40	1.43	Sweden	02/01	5,000	AA+	113,745	3.20 4.58	+0.02	+0.18	+0.8
year rear	4.08	4.12	5.44	5.48	2.72	2.80	5.92	5.95	1.53	1.66	Breece	11/08	6.750	BBB	112,743	4.70	+9.03	TU. 10	70.0
year Year	4.23	4.27	5.45	5.49	2.88	2.98	5.96	5.99	1.81	1.84	IN SUPPANIATION	4S							
year	4.36	4.40	5 46	5.50	3.03	3.11	6.00	6.03	1.96	1.90	ADB	10/07	5.500	AAA	106,851	4.52	+0.04	+0.22	+0.6
io year	4.45	4.49	5.46	5.50	3.17	3.25	6.03	6.06	2.09	212	EB.	04/08	5,000	AAA	105.385	4.27	+0.04	+0.25	+0.2
2 year	4.50	4.64	5.47	5.52	3.39	3.49	6.11	6.14	2.30	234	Eurofica	12/09	5.625	AAA	107.542	4.71	+0.05	+0.29	+0.5
5 veer	4.80	4.84	5.48	5.53	3.54	3.74	6.18	6.21	2.55	2.60	World Bank	04/05	7.125	AAA	117.038	3.92	+0.03	+D.11	+0.3
O vear	5.02	5.08	5.49	5.54	3.90	4.00	6.25	6.28	2.73	278							12.00		
5 year	5.15	5.19	5.48	5.54	4.00	4.10	6.25	6.28	2.82	2.87			-						
KD year	5.21	5.25	5.47	5.54	4.09	4.19	6.25	6.28	2.85	2.91	EDF	10/33	3.750	n/2	100.957	3.52	+0.04	+0.05	+0.1
<del></del>			_								TEPCO	02/03	4.750	AA	103.391	3.81	-0.06	+0.01	+0.4
and besk rates	ᅉ여러	ose of !	onden i	Zesnigui.	US \$	is drops	d annus		actual	(380 basis	Quebec Hydro	80/20	5,375	A+	104.030	4.81	+0.04	+0.24	+0.8
ageinst 3 mornies 1.6 Euro/Gades <i>Franc qu</i>	oded on	ا إمراهم	hand 30	360 bas	وأخريج وأ	t 8 ma					Morsk Hydro	10/99	7.250	A	101.955	3.60	-0.03	+0.06	+0.5
	oded on	ا إمراهم	hand 30	360 bas	وأخريج وأ	t 8 ma	en Eurit	or/Libor	with the		Norsk Hydro Im Ferancials	10/98		A		3.60	-0.03		
uro/Swits Franc au	oded on	ا إمراهم	hand 30	360 bas	وأخريج وأ	t 8 ma	en Eurit	or/Libor	with the	EKC290000			5.375	A AAA	105,893	4.67	+0.07	+0.32	+0.4
euro/Switte Franc qui d the 1 year 1990 wi	oded on Nich is q	aenus) ) uoted ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	uifi itu Simi B	streption rokers Ltd.	IN FEMALUALS		5.375 5.7 <b>5</b> 0		105.893 110.004	4.67 4.31	+0.07	+0.32 +0.20	+0.4
aro/Swite Franc au i the 1 year 1990 wi	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	uifi itu Simi B	EKC290000	IN FEMANCIALS Bad Wurtt	02/10 09/07 04/08	5.375 5.750 5.250	AAA	105.893 110.004 104.846	4.67 4.31 4.59	+0.07 +0.03 +0.04	+0.32 +0.20 +0.23	+0.4 +0.4 +0.5
ino Setu Frances in 1 year rase of Euro bond yi	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	with the spinal B stinal (	streption rokers Ltd.	IN FERANCIALS  Bad Wurtt  OKB	02/10 09/07	5.375 5.7 <b>5</b> 0	AAA AAA	105.893 110.004	4.67 4.31	+0.07	+0.32 +0.20	+0.4
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Euro bond y Per cent	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	with the spinal B stinal (	saceptor rokers Ltd. collar S per E	IN FIRMANCIALS Bad Wurtt DKB Credit Local Above Nati Uniterer McDonalds	02/10 09/07 04/08 01/09	5.375 5.750 5.250 5.000 5.125 5.125	AAA AA+ AA- AA-	105,893 110,004 104,846 150,476	4.67 4.31 4.59 4.94 3.49 4.56	+0.07 +0.03 +0.04 +0.05 +0.02 +0.02	+0.32 +0.20 +0.23 +0.28 +0.09 +0.25	+0.4 +0.4 +0.5 +0.8 +0.3 +0.3
Euro bond yi Per cent  5.5	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	with the spinal B stinal (	micegation rokens Lad.  ioliar  per €  1.18	IN FIRANCIALS Bad World UKB Credit Local Abbay Nati U MOUSTRALS Uniterer MicDonalds Philip Morts	02/10 09/07 04/08 01/09 10/01 03/08 06/08	5.375 5.750 5.250 5.000 5.125 5.125 5.625	AAA AA+ AA- AAA AA	105.893 110.004 104.846 180.476 103.939 104.134 103.561	4.67 4.31 4.59 4.94 3.49 4.56 5.13	+0.07 +0.03 +0.04 +0.05 +0.02 +0.04 +0.04	+0.32 +0.20 +0.23 +0.28 +0.09 +0.25 +0.30	+0.4 +0.4 +0.5 +0.8 +0.3 +0.5 +1.1
Euro bond yi Per cent  5.5	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	with the spinal B stinal (	secoption rokers lad. collar 5 per E 1,18	IN FIRMINCIALS Bad Wurtt DKB Credit Local Abboy Nati United Street McDonalds Philip Monts BAT Int Fin	02/10 09/07 04/08 01/09 10/01 03/08 06/08	5.375 5.750 5.250 5.000 5.125 5.125 5.625	AAA AA+ AA- AAA AA	105.893 110.004 104.846 180.476 103.939 104.134 103.561	4.67 4.31 4.59 4.94 3.49 4.56 5.13	+0.07 +0.03 +0.04 +0.05 +0.02 +0.04 +0.04	+0.32 +0.20 +0.23 +0.28 +0.09 +0.25 +0.30	+0.4 +0.4 +0.5 +0.8 +0.3 +0.5 +1.1 +1.2
Euro bond yi Per cent  5.5	oded on Nich is q	aenus) ) uotad ag	hand 30	360 bas	وأخريج وأ	t6 maa Xa	en Eurit Soura	oprilibor es: inten	with the spinal B stinal (	micegation rokens Lad.  ioliar  per €  1.18	IM FIRANCIALS Bad Wurtt DAB Credit Local Abboy Mail IM MOUSTRIALS Unitever McDonalds Philip Mouris BAT in Fin IM PRANCISHEFE Rhain Hypo	02/10 09/07 04/08 01/09 10/01 03/08 06/08	5.375 5.750 5.250 5.000 5.125 5.125 5.625 5.375	AAA AA+ AA- AAA AA AA	105.893 110.004 104.846 150.476 103.939 104.134 103.561 102.164	4.67 4.31 4.59 4.94 3.49 4.56 5.13 5.01	+0.07 +0.03 +0.04 +0.05 +0.05 +0.04 +0.04 +0.04	+0.32 +0.20 +0.23 +0.28 +0.28 +0.09 +0.25 +0.04	+0.4 +0.4 +0.5 +0.8 +0.3 +0.5 +1.1 +1.2
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CHEMICALS

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The Global Offering of strares in Banca Nazionale del Lavoro has been promoted by the Italian Government through the Italian Treasury

> January 1999 € 2,655,553,875

Banca Nazionale del Lavoro

1,115,135,192 Ordinary Shares

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U.S. Institutional Offering 52,900,000 Shares Schroders Lehman Brothers

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Schroders

Petróleos de Venezuela (PDVSA), the state oil company that is seeking to raise Sibn in the international capital markets over the next few weeks, is expected to face tough market conditions due to Venezuela's sovereign risk and the depressed oil price.

"I'm sure PDVSA can place the paper but it will be at a higher cost than it did last year," says Franklin Santarelli, senior analyst with Duff and Phelps, the credit rating firm.

PDVSA's new board of directors, appointed at the beginning of last month. approved a \$1bn bond issue, but officials say the amount is only half its total borrowing requirements, and are hoping a second issue will be scheduled if the first is well received by the market.

PDV Finance, an offshore investment vehicle, last May issued a total of S1.Sbn in five tranches priced between 88 and 165 basis points over US Treasuries with maturities between five and 30 years. These were backed by PDVSA's expected payments from clients.

DCR last December downgraded PDV Finance's notes from A to A-, after also downgrading the country's long-term foreign currency debt rating from BB- to B+.

It argued that "the structure of the PDVSA Finance transaction mitigated but did not completely eliminate sovereign risk."

As the country faced a severe shortage of foreign currency, the likelihood of sovereign interference with WOU

# Greenspan comments buoy Treasuries Rate warning

year benchmark bond had

gained & to 95% in early

afternoon trading, sending

the yield to 5.582 per cent.

The 10-year note was up & at

96%, yielding 5.227 per cent

**BENCHMARK BONDS** 

By Arkady Ostrovsky and Khozem Merchant in London and John Labate in New York

Soothing comments made by Alan Greenspan, chairman of the Federal Reserve, prompted the US bond market to edge higher yesterday. as European bond markets continued to sell off.

Mr Greenspan said that despite strong US economic growth and low unemployment 'there have been no obvious signs of emerging inflationary pressures". said.

Traders interpreted his words as a sign that the Fed higher at midday. The 30- points few weeks ago. might be less keen to cut interest rates than feared.

Mr Greenspan also said productivity gains were expected to continue. His comments came as new figures on productivity were released, showing that in the fourth quarter of 1998 productivity was revised to a 4.6 per cent rise from the previously reported 3.7 per cent.

and less on labour, analysts

and the two-year note was ± higher at 99%, yielding 5.084 per cent. European bond markets however ended lower yesterday, lacking encouragement from the European Central The tight labour market Bank. The spread between German bunds and US Treacould prompt companies to spend more on technology

I US DOLLARS

Ford Motor Credit Coff

Ford Motor Credit Coff)
Lander No Six
Tokyo Bectric Power Coff)
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III EUROSie

# STERLING

Abbey Nati Trsy Servi

E SWISS FRANCS

US Treasuries edged ing peaked at 140 basis borrowing requirement higher at midday. The 30- points few weeks ago. which could translate into The UK gilt market weakened in response to the Bud-get, which, analysts say, reduces chances of an interest rate cut.

Kevin Adams of Barclays Capital, said: "Gordon Brown spent most of the budget giving away money, which means consumer ient and business confidence could go up." He said the monetary policy committee would find it harder to cut rates in this environment.

Mar 2009 Mar 2004 Jun 2008 Mar 2009

0.20 0.50A

the reduction of debt issuance prompted investors to sell off at the short and long end of the gilt market. The henchmark 10-year gilt June future fell 0.74 to 115.63.

Japanese government bonds continued to weaken after their recent rally, evidence of nervousness ahead spending is likely to be resil- of a crucial Bank of Japan's monetary policy committee meeting on Friday.

Ten-year JGB futures weakened 51 basis points in Tokyo and marginally less in

# sparks rise in JGB yields

By Gillian Tett and Naoko Nakamae in Tokyo

Yields on long-term spanese government bonds resterday rose sharply after a warning from the Bank of Japan governor that he expected long-term interest ates to rise again soon.

Government suggestions of an imminent tightening of bond trading regulations also damped the bond market, and the yield on the benchmark 10-year government bond climbed 8 basis points to 1.7 per cent.

Comments made in parliament by Masaru Hayami, Bank of Japan governor. were interpreted as a sign that he did not expect the Bank to take further radical steps to ease monetary policy when its policy board

meets on Friday. However, economists pointed out that the Bank was still holding intensive internal discussions about cent of the market price. policy ahead of Friday's meeting. And although Mr Hayami has ruled out any direct underwriting of JGBs. some officials expect that some less drastic measures may still be adopted in the coming weeks.

neeting is likely to consider introducing interest rate targets for three-month money or relaxing rules on bank reserve requirements.

Yoshito Sakakibara, economist at Goldman Sachs, said: "I think Mr Hayami is signalling that the Bank remains against underwrit-

ing JGBs.' But the recent surge in long-term interest rates has Y190,000bn of assets.

We have been increasing our duration in Japanes bonds since long-term yields have gone up," said Takashi Kawashima, manager in the investment planning department at Dai-ichi Mutual Japan's second largest life

insurer. "As a life insurance company with fixed liabilities higher long-term interest rates are beneficial to us in the medium- to long-run. As a result, we have been buy ing more 10-year government bonds. And we will to continue to do so, if long-term rates continue to trend

Bond yields were yester day also dented as traders warned that the Japan Securities Dealers Association, the industry watchdog appeared poised to reimpose a rule requiring all trades to be conducted within 2 per

The JSDA, which abolished the rule in December, said that nothing had beendecided. However, in recent weeks the JSDA has come. under pressure to reimpose the rule since there had been a dramatic increase in the In particular, Friday's practice of "price adjustment", or conducting bond trades at artificial prices to conceal losses.

This prompted foreign criticism that the JSDA was in effect encouraging trading practices that did not meet global compliance standards. And senior Finance Ministry officials have consequently been pressing the JSDA to reimpose some form of controls to boost Tokyo's reputation as a global financial

iş.

Lien --

Trans.

BASE LTA

### This and the reduction in London. points during the day, hav-Tepco launches €750m five-year bond

New international bond issues

(a,s) 4.25 4.00 (b1) 5.50 (c,s) 5.125 6.40(q) 4.625 7.375

100.00 98.31R 98.971R 99.56R 100.00 97.70R 102.00

suries narrowed to 115 basis

**NEW ISSUES** 

By Khozem Merchant

Tokyo Electric Power, the world's largest privately owned electric power company, yesterday became the first Japanese corporate to launch a euro-denominated bond. Tepco's offering continues the recent rehabilitation of Japanese credits.

investor concerns over the Japanese economy, which is in recession, have largely shut out domestic corporates from the debt markets. But sentiment towards Japan has improved, with the government tackling the troubled banking sector and addressing an anaemic

economy. In the past two weeks, several government agencies. such as Japan Export Import Bank, have successfully tapped the debt market. The five-year €750m issue,

which was priced to yield 56

basis points over the 2004

OAT and tightened by 3 basis points, is the largest ever issue by Tepco in a European currency.

-0.18 -0.07 -0.09

-0.04 -0.23 -0.05 -0.04

+0.19 -0.70 -0.53

-0.03 -0.98 -0.11 -0.17

+3.37 +6.50

+3.77 +8.76 +3.30

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103.5211 98.9573 90.9380

68.7500 59.3750 76.5000 64.3750

6.33 8.56 11.71

9.26 14 09 8.71 11.18

Japan and WestLB, said the borrower was able to make cost savings over comparable domestically generated

funding. The Asian theme continued with Hutchison Ports issuing a 15-year £325m bond, just a week after a successful debut euro-denominated issue by its parent, the Hong Kong-based conglomerate Hutchison Whampoa.

Hutchison Ports' key asset is the port of Felixstowe, the largest container port in the UK and the fourth largest in Europe. Its ports, which include Thamesport and Harwich, handle some 46 per cent of the UK's container traffic. Bankers said Hutchison

Ports opted for a sterling issue - instead of a euro issue like its parent because it was a UK-based business with sterling funding requirements. The borrower was also

keen to issue a longer-dated bond and accordingly provoked strong responses from its target investors pension funds and insurance

from a level of 200 basis points indicated during a roadshow in Scotland and London. The bond narrowed

launched its debut euro

by 2 basis points.

yield 195 basis points over Bankers say the Ford But the situation has eased the relevant gilt, tightening issue, which is expected in recent days as euro swap to be priced today at spreads - the rate at which small rally in euro-denomi-

Final terms, non-callable unless stated. Year spread (over relevant government bond) at Euroca supplied by feld managet; Floating-rate note. Pt fixed re-offer price; fees shown at re-offer level, at Proced today 47-68ch over the BTAM. b) Secured on German retail auto loans originated by Cologne branch of PCE Bank Pic, a subscripty of Ford Mictor Credit Co. An Illie 3.3 yrs. b1) 1-mth Europo +24bp. b2) Junior class: 620.5m, 5.1 yrs. 1-ME +60bp. per. c) 3-mth Europo +24bp. b2) Junior class: 620.5m, 5.1 yrs. 1-ME +60bp. per. c) 3-mth Europo +24bp. d) Callable from 7/10/00 at higher of par of formula. e) Spread release to German gov) bonds traited: f) Spread re-French gov) bonds (26bb) on coupon dates from 30/3/04 at par. h) Fungible with 6400m. Pits 21 days accrued. j) Reclempton linked to any list in D) Euro Stoot 50 index. k) 6300m launched 4/3/99 was increased to 6350m. § Long 1st coupon. m) Fungible with 57/500m. Pius 140 days accrued. q) Cuarterly, si Short 1st coupon.

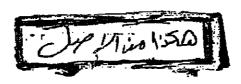
Ford, the US carmaker borrowers.

47-48 basis points over the fixed rate money is swapped French BTAN, could signal a for floating rate money have widened while dollar nated issuance by US spreads have remained stable, correcting an imbalance For US borrowers, the that has dissuaded US bor-

+155 January Mentil Lynch

ASA-Cçer -- 2511-904 Deutsche/JPM/We

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Belgiusa	01/08	5.000 1054 5.000 103.4				+0.23		EL LONG TERM EURO SOND OPTIONS (MATE)				CME ·	05/08	8.00 888	111.5498		0.03 +0.3		Conetyec Citizany FROM	01/07 62/04	7.000 5.066	A+ 106,01 AA- 38,90				+0.81 +0.14
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	C\$-08	6 000 104 (	800 53	2 -981	-003	+1.25	-0.19	97 0.02 -	L18 3.3	<b>38</b> -	3.53	Banc One CNA Fis	08/02 01/18	7.25 A 6.95 A-	102.9436 92.8926		0.02 +0.3 0.04 +0.3		Torondo (M cf) Bell Canada	05/04 07/99	8.500	AA+ 111.98 A+ .101.5	900 5.76	i -	+8.37	+0.15 +1.25
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	04/09 04/29	4 000 98 1 5 500 105.7	300 4 23	3 +0.07	+0.66	+0.33	-0.73 -0.40	Open Sett price Change	High	Low Est.	voi Open int.	FHUMC	04/07	7.14 X/A	109.3463 102.1038		0.03 +0.2		Abbey Rat Frin	02/02	5.587	AA 100.00	<b>250 4.</b> 51	+0.03	+0.25	-0.41
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<u></u>	11/01	7.000 104.9	000 5.00	+0,05	+0.07	+0.37	-161	BL RIGHTOWAL 5 YEAR GILT PUTURES (LIFTE) E	90,006 100#s	of 100%		4 5-15 years (16) 5 Over 15 years (	4) 2	225.61 -0.80	2.76 1.14 2.68 1.23	1541.97	11.82	4.82 42. 4.76 22.	05 5 All stock	years (41) ks (11)	273 251,		1.33 1.27		1491.83 42 1368.05 10	
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Lander steeks) " A	02/29		371 5.59		-0.04	+0.13	-0.40	Mer 115.98 115.08 -0.58 Jun 116.50 115.63 -0.74		15.10 238 15.40 4343	B 8613	20 vrs	6.78 4.7 6.78 4.7	71 5.98	High 15 yes	48	6 4.82	6.10	5-15 yrs Over 15 yrs	2.04	9.68 2.14 17.01 2.04	3.13	1.88 1.88	9.72 17.10	1.87 25 1.88 25	6
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10 YEAR	REN	CHMARK	SPRFA	.DS				LONG GELT FUTURES OPTIONS (LIFFE) 5100.  Strike CALLS	000 100ths of 1	PUTS		FT Flued Interest		Mar 8 Max 5	163 ( H	# 3 * t	ga High	Low		Mer s	War 8 Ma	5 <b>ib</b> er 4	Mar 3	Yr ago	Hight in	<b>,</b> -
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**CURRENCIES & MONEY** 

# Chinese whispers warn of devaluation

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"With an ageing popula-

tion dependent on interest

income, the Bank of Japan

has to strike a balance between saying that the

### MARKETS REPORT

By Melanie Carroll and Alan Beattie

China raised interest rates held in US and Hong Kong information. dollars, sparking rumours that the renminbi might be

The People's Bank of China (PBOC) raised the reserves he said. interest rate for one-year US dollar deposits from 3.75 per

cent to 4.4375 per cent.
But the PBOC denied reports that it has pulled currency stockpile. together an informal team to look at a possible renminbi devaluation.

One analyst from a bank in London said markets had quickly come to the conclusion that the rumours were without substance, and had behaved calmly.

He said the interest rate rise was not a surprise move, and showed confidence in the local currency more than a fear of currency

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flight by investors. Gene Frieda, analyst at the economics consultancy 4Cast, said he believed the devaluation rumour had started partly because the yesterday for local accounts PBOC has held back crucial

> last year's unreleased balance of payments data, and the bank's foreign exchange Mr Frieda added that the

PBOC has a very strong aversion to losing any of its reserves despite its large ■ The yen strengthened

against the dollar yesterday

as comments from the Bank of Japan diminished the chances of another Japanese monetary policy loosening in POUND IN NEW YORK

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the very near term. Masaru Hayami, the BoJ's that he expected interest

governor, said yesterday rates to rise over time. JGB yields rose sharply on the comments, made during the Asian trading session, and Of particular interest are the yen climbed against the dollar.

At one point the dollar fell to Y120.6, its lowest level for around a week. But it recovered later on the fears of an impending Chinese devaluation, and for the rest of the London session traded above Y121 against the yen.

Mr Havami's comments confirmed for many that this Friday's Bol board meeting was unlikely to see any further radical moves to pump more money into the Japanese economy. But Joe Prendergast, head

of global foreign exchange monetary easing is signifiresearch for Credit Suisse cant and saying it is tempo-First Boston, said it was rary," he said. careful to distinguish between comments made for strategist at Warburg Dillon financial markets' consump-Read in London, said the

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market was disappointed just below \$1.61 for most of being drawn," he added.

Mr Crise said that that the fewer investors were willing union were expected to move to take long-term positions sterling significantly. in the yen. This is making the yen a

currency," he added.

■ Sterling trod water yesterday despite the potentially important effects of the UK

The pound remained fixed

OTHER CURRENCIES Czech Rp 55.2409 - 56.3282 34.8370 - 34.8780 Czech na Yestgary Aran Kawait Peru Potpad Persala LLAE 9-36-249 - 30.502 34.83(7) - 34.8764 371.215 - 371.861 229-90 - 281.249 4845.30 - 4843.20 3000.00 - 3000.00 0.4825 - 0.4829 0.3051 - 0.3052 5.4906 - 5.4994 3 4010 - 3.4050 5.3333 - 8.3457 3.9239 - 3.9239 37.8640 - 37.7287 23.3300 - 23.850 Cameron Crise, currency 37.6640 · 37.7297 23.3300

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with Hayami's comments, the day ahead of the annual which seem to indicate that UK Budget, delivered he is still worried about towards the end of the Loninflation. "But the opacity of don session. Traders expec-Japanese policy-making pre- ted few surprises in the Budvents any clear conclusion get. Only a downgrading of the government's growth forecasi or an announcepolicy uncertainty meant ment on European monetary

In the event neither happened and the pound moved very shortterm flow-driven little on the day.

> ■ The Thai central bank vesterday tried to tighten restrictions on dollar/baht swaps to prevent speculators from taking advantage of the large difference between onand off-shore forward swap

premiums. The Thai central bank asked traders to stop selling tomorrow/next day swaps to overseas customers to restrict the amount of baht in offshore markets. This will make it harder for inves tors to sell the currency.

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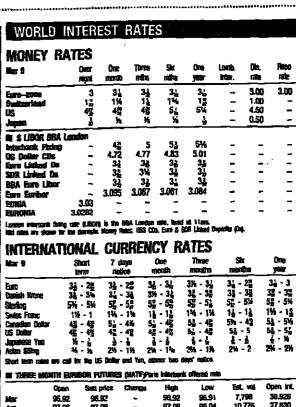
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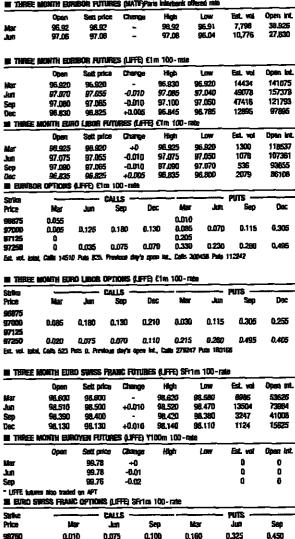
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fining Correspondent

Platinum group metals are providing one of the few glimmers of light in otherwise depressed metals

Platinum itself had a run-up last month, but the real action has been in two important associated metals. palladium and rhodium, both of which have trebled in price (in US dollar terms) since the start of 1997.

also helped share prices of platinum producers. The platinum group metals' strength stems from its use for cleaning up vehicle exhaust emissions in autocatalysts. More stringent standards, particularly in the US. mean demand is set to rise.

Shares of South African platinum producers, whose profitability has been helped by a weaker rand, have been especially buoyant. Impala Platinum, for instance, has risen by about 140 per cent since the start of 1997. Mercury Asset Management now has over 13 per cent of its £74m (\$119m) Gold & General unit trust invested in South African platinum

Supply of the metals is already tight, particularly in palladium, where Russia is the largest producer. Exports from Norilsk, in Arctic Russia, are plagued by physical and bureaucratic delays. although a new long-term export licence for palladium was last week said to bave been agreed.

Worldwide demand for palladium was 8.2m ounces in 1998, about 3m more than new production, according to Johnson Matthey, and supply deficits are expected to continue into 2000. Analysts disagree whether Russia can or will plug the gap.

sold about 10m ounces from its stocks to balance increasing demand. However, the size and availability of the remaining stocks remain a state secret and leaves the market in uncertainty." says the latest strategic report from Canadian researchers

Metals Economics Group. Expectations of strong demand have already prompted leading palladium producers to expand production, both through new The buoyant markets have mines and expansion at existing mines. MEG estimates how these expansion plans will add to supply as

> The 14 major palladium producing mines could increase their capacity from 5.2m ounces in 1999 to 5.6m ounces in 2001. This estimate assumes no increase at Norilsk, whose capacity is left unchanged at 2.5m ounces. Capacity is expected to remain unchanged at Inco's Ontario division and Gold Fields' Northam mine. All others are expected to rise. with notably large capacity increases at North American Palladium's Lac Des Isles Mine (up 120,000 ounces to 200,000 ounces) and BHP/ Zimplats' Hartley mine (up 80.000 ounces to 110,000 ounces).

> Six potential new mines most with start-up dates of 2001 or earlier, could add another 800,000 ounces to annual palladium production capacity. The three largest are: Stillwater's East Boulder (384,000 ounces); Zimplats' Ngezi (134,000); Amplats' Bafokeng-Rasimone (100,000).

 Another five projects are at an early stage of explora-Strategic Report from Metals

Economics Group, PO Box 2206. Halifax, Nova Scotia, Canada B3J 3C4

# China urged to boost gold reserves

China should triple the ratio of gold in the foreign exchange reserves, which recommendation by a senior official at the national gold

The allocation of China's \$145bn foreign exchange reserves, the second largest in the world, has the power to sway currency markets.

recent trend of disposals of gold holdings by central banks particularly in have become over-invested Europe, but if Beijing takes in US dollars, according to a up the recommendation, it at the ministry of metallurgi- 2.9 per cent of the foreign of China's exchange reserve could offer support for flagging international gold

> But the suggestion from a gold industry official also underlines how gold has lost some of its shine in China,

demand stagnated.

Liu Shanen, deputy director of the gold economic development research centre excessive US weighting of the foreign exchange

ing national security hostage to the US dollar". The real extent of Chinese gold holdings is a state steady at around 397 tonnes for more than a decade.

cal industry, warned that exchange reserves, significantly lower than countries such as the US (71 per cent) reserves could "mean hold- and France (47 per cent) according to World Gold Council figures.

The published figures are treated with great scepticism

The proposal to boost Chi- has slumped over the past secret. According to the pubby the industry, which esti-na's gold reserves bucks the five years and government lished figures, China's hold-mates the central bank holds ings in gold have been perhaps as much as 1,000

> Mr Liu, who has submitted That represents a ratio of his proposal to the managers but has no influence over their decision, says there are doubts over the possible "overvaluation of the US dollar", the volatility of the Japanese yen and the "uncer-tainties" that surround the

> > Venezuela coffee production

Still, Mr Mendoza says

gs for the season ending

neighbouring Colombia or

Brazil but nearly four times

the 160,000 bags sold abroad

Indeed, he is confident Venezuela will regain its

The future of Venezuela's

coffee industry could receive

a further boost. As part of its

plans to diversify the econ-

omy, the government is to

stimulate agriculture via

infrastructure projects and

try's coffee sector may well

depend on these policies,"

The recovery of the coun-

prestige on the international

last year.

chean loans

says Mr Yánez.

# Prospect of Opec deal lifts oil prices

MARKETS REPORT By Robert Corzine and Gillian O'Connor

Oil prices firmed yesterday as one of the presumed barriers to another round of Opec production cuts was reported to have been overcome in recent talks between-Saudi Arabia and Iran

The price of Brent Blend for April delivery was quoted at \$11.83 a barrel in late trading on London's International Petroleum Exchange, 7 cents up on Monday's close.

Early losses were quickly clawed back after a report suggested that Saudi Arabia; Opec's dominant member had accepted a new basis from which to measure fran's production cuts.

Most analysis say another big Opec cut will be needed to push prices substantially higher. But as Philip Verieger, a US oil economist points out in his latest monthly report, history suggests commodity restraint agreements are usually only effective at raising prices when underlying

...demand is strong and economic conditions are good. Such a state of affairs does not exist today".

Alcan Aluminium warned yesterday that its first-quarter net income was likely to be 50-60 per cent lower than in the 1998 fourth quarter, but showed no inclination to cut production. Similar stoicism across the industry is the main reason analysts expect the LME price of aluminium to continue weak. So far this year it is down about 8 per cent on its level

at the end of 1998. At current price levels a number of producers are not covering their operating costs. But substantial fixed costs mean that closure could leave them with even higher running losses.

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# where public consumption Venezuelan coffee industry perks up

The Caribbean country has renewed its

focus on the crop, says Raymond Colitt s Venezuela's oil indus- launched a technical assis-A try, the principal source tance programme aimed at increasing productivity by hit by record low petrol replacing old coffee bushes prices and production cuts. and applying new producthe Caribbean nation is tion techniques. rediscovering what was once its leading cash crop -

For decades, the country's coffee industry had been overshadowed by oil Farmers abandoned their coffee plantations for more lucrative jobs in the cities, and coffee production plummeted as oil output soared.

But today, a coffee renaissance is under way, as coffee growers are boosting productivity and quality and staging a gradual comeback on international markets.

According to Gustavo Mendoza Sánchez, managing director of Foncase, the state coffee fund, production for the harvest ending this September is to reach a 50-year high of 1.8m quintals (1.38m 60kg bags). That is up from only 1.2m quintals last year. The industry's turnround

began in 1992, when Foncafe relinquished its monopoly on distributing coffee and fixing prices. The deregulated sector attracted fresh investment capital. In addition, Foncafe

"We are now beginning to see the results of those

efforts," says Mr Mendoza. Unlike other coffee exporters, Venezuela traditionally consumed much of its best coffee domestically. At 780,000 bags a year for a population of 22m. per capita

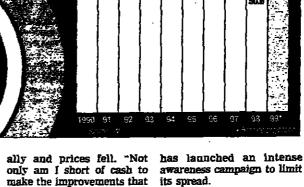
among the highest in the Yet, a prolonged economic crisis and slumping consumer demand has forced producers to look for over-

coffee consumption has been

seas markets. For example, Antonio Ruiz, a farmer in the western state of Mérida, has become a model for the rest of the industry. Production yields at his Los Canales plantation reach a record 94 bags a hectare because of high density planting and the frequent pruning of

"I was tired of the local buyers, who paid little and late. Now I have a better income," he says, though he admits Venezuelan coffee producers still have some

SOFTS



way to go in convincing foreign buyers of quality and reliability in their delivery. "Without the intermedia-

tion of Foncafe, we can deal directly with traders and get better deals," says José Yánez, head of an association of 1,600 coffee producers in Portuguesa.

The incentive to export is apparent. While a 69kg bag of premium washed coffee sells for 47,000 bolivars (\$\$1.5) in Caracas, it can fetch 62,000 bolivars (\$107.5) in New York with shipping and handling cost of \$5, says Javier Dominguez, a Caracas coffee trader. However, not everyone has

been able to overcome the domestic slump in demand. Dionisio Gómez, a small producer in Mérida, says he took out a loan to modernise his coffee plantation when

interest rates rose dramatic-

make the improvements that foreign buyers demand, but exports could exceed 600,000 at 900 bolivars per pound, I'm earning 20 bolivars less in September. This is still than my production cost," he says. modest compared with

he biggest challenge for

Venezuela's coffee producers is accessing the international market and establishing a name for Venezuelan brands, says Mr Dominguez. "We are still at a 10 per cent discount to New York's spot market because our coffee is not known." he says.

There is also the continuous threat from la Broca, an insect that has affected much of neighbouring Colombia's production. It has been brought to Venezuela largely by contraband coffee from Colombia, and Foncafe

JOTTER PAD

ROMARDIALS PRICES

**BASE METALS** LONDON METAL EXCHANGE M ALUMANIANA 99.7 PURITY IS DEF TOTAL 1143-4 1143-44 1143-4 Open mt. Total daily tumoves E ALUBANIANA ALLOY (5 per tonne) High/lon AM Official 1017-8 Kerb close Open mt. Total daily tumorer **ILLEAD** (S per torme) Closa Previous High/low AM Official 496.5-7.5 500-1 n/a n/a MICKEL IS per torme) 4950-60 4990-5000 4925-35 4930-35 Open int. Total daily furnover nya n√a TIN (\$ per tonne) 5425-35 5375-80 5350-55 5360/5310 5320-25 5340-50 5390-400 ■ ZNC, special high grade & per tonns 1035-6 1044-45 1025-6 1035-36 revolus High/low AM Official Korb close Open Int. Total daily tumover 1024-5 1032.5-3.5 1032-3

Spot: 1,6168 3 mats; 1,6153 6 mats; 1,6153 9 mats; 1,6161 IN HIGH GRADE COPPER (COMEX) PRECIOUS METALS UL LONDON BUILLION MARKET € equiv Eur equiv 181 609 258.414 181 686 269.107

TO COPPER, grade A (\$ per lonne)

I LATE AM DISCLAL E/\$ rate; 1.5080

1375.5-7.5

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1390-90.5 1408/1390 1401-2 1403-4

Classe Prévious High:Tow AM Official

kerb clase

Open int. Total daily turnover

Gold Lending Rates (Vs USS) Silver Fix Gold Coins

**Precious Metals continued** ■ GOLD COMEX (100 Tray az.; S/tray az.) 293 4 +0.7 295.5 292.4 63,934 108.9k 295.2 +0.7 298.0 294.3 1,500 26,361 297.1 +0.6 299.2 296.7 90 7,160 299.0 +0.5 301.0 299.0 25 2,912 ME PLATINGUM MYMEX (50 Troy oz.; \$780) oz.) 3755 -30 3790 3753 892 14,027 3735 -25 3750 3730 215 3,135 3735 -25 - 11 1,011 1,118 18,177 347.60 ~0.65 - - 35 320 345.60 ~1.85 347.45 343.50 112 2.517 338.60 ~1.85 ~ 1 157 147 3,135 6,455 B5,547 ENERGY CRUDE OIL WINEX (1,000 barrels, S/barrel) 13.82 +0.19 14.03 13.36 97.317 109.1k 13.88 +0.15 14.07 13.47 45.407 97.083 13.88 +0.12 14.05 13.50 22.166 68.83 13.90 +0.10 14.05 13.57 8,167 33,87 13.94 +0.10 14.05 13.63 3,807 19,841 14.00 +0.12 14.08 13.69 2,650 15,267 195,388 581,317 Spm Dary's Open price clange High Low Vol Int 11.82 +0.06 11.99 11.49 21,555 42,584 Apr May Jen Jen Aug Sep Total 11.52 +0.06 11.59 11.52 22.57 42.594 11.95 +0.06 12.10 11.53 22.57 42.749 12.10 +0.04 12.25 11.30 5,879 43.142 12.30 +0.13 12.37 11.95 1,060 17.885 12.19 -0.07 12.19 12.07 211 7,563 12.23 -0.09 12.26 12.20 2,045 5,686 848 862 HEATING OIL NYMEX (42,000 US galls; clus galls) 38.00 +0.42 30.30 35.10 25.00 37.37 22,800 36.30 +0.14 36.90 38.00 4.053 17.620 37.20 +0.14 37.30 36.51 1.714 13.212 37.90 +0.14 38.05 37.50 1.089 10.578 38.60 +0.04 38.95 38.80 2.404 7.934 45.387156,028 HI EAS (PL PE (S/Norme)

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**GRAINS AND OIL SEEDS** WHEAT LIFFE (180 tornes; £ per toune) 89 3,173 95 1,418 25 165 107 2,859 42 442 245 8,150 75.25 -0.75 75.60 75.25 77.10 -0.80 77.50 77.10 76.25 -0.95 76.75 76.75 78.25 -0.95 79.00 78.25 NAMES OF CONTROL OF CO 285.50 -5.00 282.50 266.00 4,363 2,870 282.50 265.07 -4.25 272.50 285.50 16,426 48,382 275.75 -4.00 282.50 275.00 14,854 55,429 286.50 -4.25 283.00 286.25 1,735 5,213 302.50 -4.25 306.00 300.00 1,774 7,742 310.00 -2.00 314.50 310.00 103 2,374 38,282 122.527 MAJZE C81 (5,000 to selo; cents/56th bushe) 215.25 +1.25 217.50 213.00 4,631 9.285
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Close Prev 964 958 畘 PULP AND PAPER PULPEX OMILX (US\$; 24 air dry tons) Sett Day's price change High Low Vol

Tes from the Tea Brokers' Association Mombiasa. There was a strong and Improved demand. Prices for the best BPIs not maintained but other brighter and mediums were inequalter but on belance, firm. Neater lower mediums and plainer sorts were about 5 to 15 certs dearer but poor leaf/fibrous types rended to be reglected. Brighter PFIs tended deaver by about 3 to 7 cents. Coloury mediums were dearer by 5 to 10 cents with lighter and brighter sorts up to 18 cents dearer. Lower mediums and plainer sorts were a strong leature and dearer by 5 to 15 cents and cometimes more. Brighter liquoring pudusts were integritarly eggier.

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INDICES **38 Reuters** (Base: 18/9/31 = 100) **3. CRS Fatures (Base: 1967 = 100)** Mar 8 187,64 Mar 5 mouth ago 186.53 — ■ SSCI Spot (Base: 1970 = 100) Mar 8 139.27 LIME WAREN Mar 5 month ago 137.22 . 133.10 year ago 160.22 +375 -280 -1,550 -1,175 +18 -1,075 697,050

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Oct 55.000 -0.075 55.000 54.800 159

Dec 55.250 -0.250 55.400 55.200 43 2.502

Total 7,087 42.720

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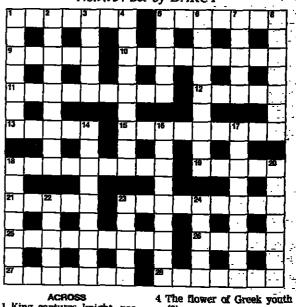
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**LONDON TRADED OPTIONS** Strike price 5 tomme - Calls -- -- Posta --

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CROSSWORD No.9,934 Set by DARCY



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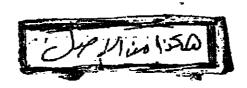
(9) 17 Possibly bear being restricted in diet (9) 18 What property-owners did with devilish tenant (9)
19 Nearly have a memory-lapse in the workshop (5)
21, 23 Cashing in, when 18 Pleasure seeker – a sort of Peter Pan? (7) 20 Area over the border - in group's on drugs (5-9)
25 Swan about during a dance she was involved in? (9)
26 City has agreement for Ger-man and Spanish wine (5) 22 Hairdresser's loans sorted

27 Get zany antics in oriental river (7) When figure finally goes, destined to develop bulge? (7)

DOWN 1 Fellow interrupts man in charge, appearing baleful

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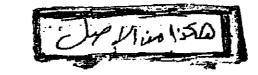
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LONDON SHARE SERVICE 44.11.14年11日 | 14.11日 Rank Street Street DISTRIBUTORS 17、19年4年,1月16、19年4年,1月17年,1月17年,1月17日,19年1日,19年4日,19年4日,19年4日,19年4日,19年1日,19年1日,19年1日,19年1日,19年1日,19年1日,19年1日,1 1880年 1980年 1980年 1980年 1980年 1980年 1月1日 | -i Chillian II was a series Breweries, Pubs & Rest enedatelenenen automonia erikanska enedatelenen enedatelen enedate Radisson FDWARDIAN というない 一番のでき 115 58 58 58 58 -21<sub>2</sub> ELECTRONIC & ELECTRICAL EOPT 1,727 1,777 8,822 2,102 2,102 6,2 | 1982 | 1985 | 1986 | 1987 | 1987 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 1988 | 一般のできる。 のは、100mmのでは、100mmの 等放於下去於即分類於自然及所以及語彙不過的內容而於 P. 自然不可以的語言。 1985年 | Case | File | Case | ,这一种,我们是这个人,我们就是一个人,我们就是不是一个人,我们就是不是一个人,我们就是这个人,我们也是一个人,我们也是这一个人,我们也是这一个人,我们也是这一个人,我们就是这一个人,我们也是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这一个人,我们就是这 32 Advance Hotels Prog 40 Advance Hotels Prog A CARLES OF THE BOLD OF THE SECOND OF THE SE | According to | Acco AGA Str. 22.1
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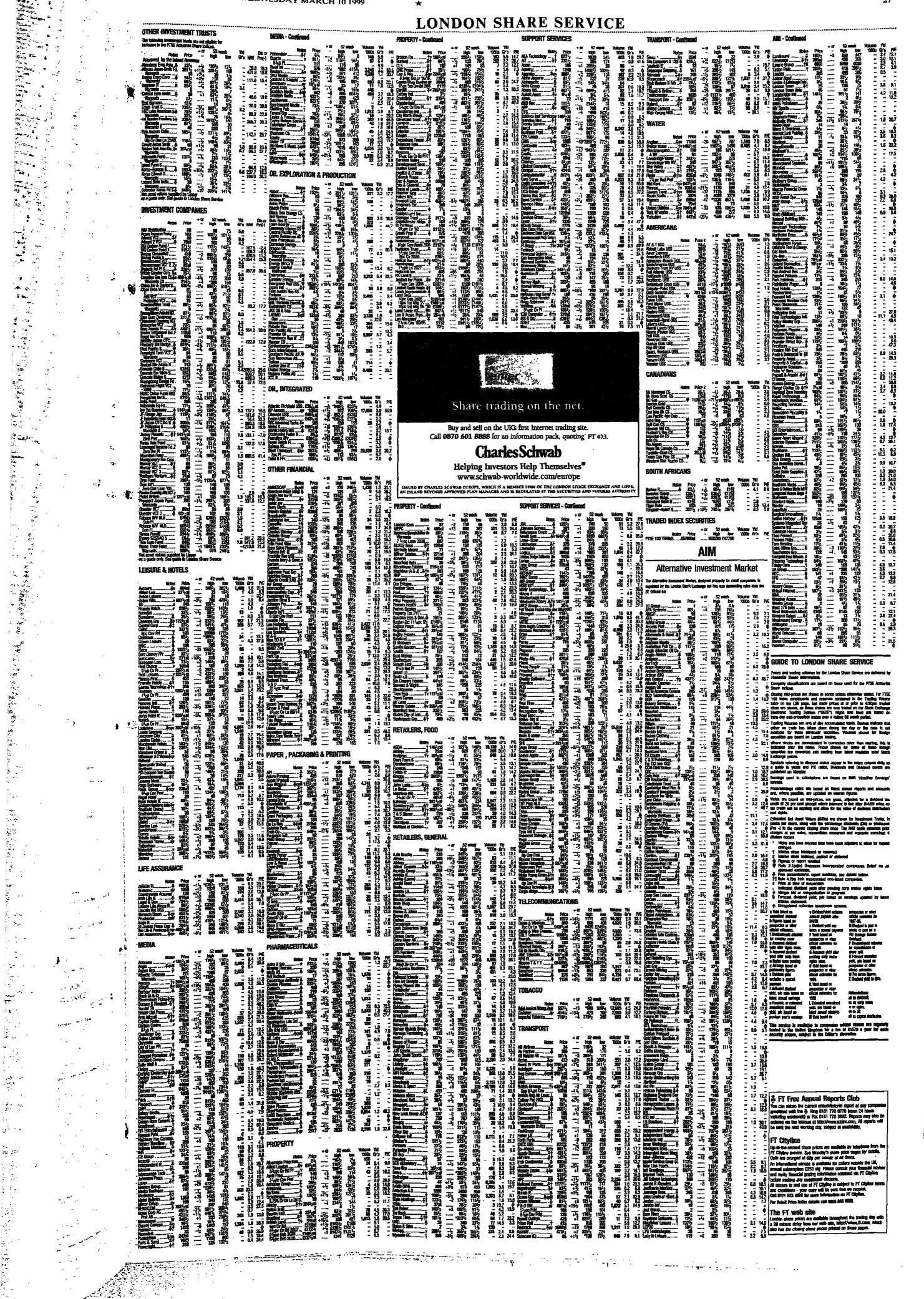
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MARKET REPORT By Steve Thompson, UK Stock Market Editor

The FTSE 100, delicately poised at 6,219.6 as the chancellor of the exchequer rose to deliver his third Budget speech in Parliament, gradually edged ahead, gaining in confidence as the speech progressed with only a few

hiccups spoiling the party. fall in gilts, which were not pleased by the apparent generosity of the chancellor's package, was offset by the spending that would result made rapid progress at the from the tax cuts start of the day, with the announced.

With the market closing minutes before Gordon Brown announced next year's income tax cut, the index ended 28.9 shead at

There were few problems for the market's middleranking stocks or the smallcaps, both of which ended not far short of their session highs. The FTSE 250 closed 16.5 firmer at 5,375.7 after a day's high of 5,378.8, while the FTSE SmallCap was finally 7.0 up at 2,322.9.

FTSE 100 racing up almost 80 points and getting to within 32 points of its previous intra-day high - 6.319.8 - as dealers reacted to Wall

Street's overnight strength. The Dow Jones Industrial Average slipped 8 points, but the S&P 500 hit a record high. And the two leading Asian markets, Tokyo and Hong Kong, also made rapid

Wall Street set an uncertain tone at the start of trading yesterday, only to rally strongly as London closed. The initial reaction to the

company has been buying

back its own shares through

Strand Investment Holdings,

but it denied it was the big

buver of stock vesterday.

The shares gained 4% to

Albright & Wilson, the

phosphates group facing a

bid from Albemarle of the US, jumped sharply as the

prospect grew that another

company would throw its

hat into the ring.

1411/sp in trade of 15m.

Budget proposals was that the equity market would probably make progress.

The head of market making at one big European investment bank described the Budget as "a bit boring". He added: "There were no really big shocks. The mar-

ket feels okay as we speak. but it is near its peak and we will depend on Wall Street.' Another said he saw the Budget as "neutral, as expected. I think we'll go better simply because the Budget is

out of the way." David Butler, head of institutional sales at Teather &

lor left the drinks sector alone, which has to be bullish, But, truthfully, if Wall Street is down 150 points tonight, then we'll come in lower. If it's 200 points bet-

ter, we'll come in higher." Bob Semple, UK equity market strategist at BT Alex Brown, said the Budget was biased towards the consumer and it looked as if it could boost the equity market. "But there will be a worry

of sterling and gilts." he The Budget moves pro-

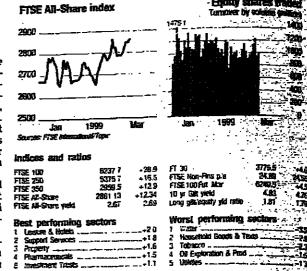
Greenwood, said: "The only duced plenty of shifts among

big drinks companies stabilising as the market registered surprise that the chancellor had left duty on beer wines and spirits untouched.

But there was a significant sell-off in the water stocks and BAA as the chancellor said he would introduce a competition review.

Computer, IT stocks and Dixons, the high street retailer, were being chased after the proposed "computers for all" measures.

over the likely performance Turnover in equities finished just short of the Ibn mark, reaching 997.7m



### **Brewer** presses its case

**COMPANIES REPORT** By Joel Kibazo, Peter John and Martin Brice

Drinks group South African Breweries yesterday surged through the 500p barrier on its way to securing a place in the FTSE 100 index.

started on Monday, and dealers were confident that the rise in the stock, up 22% to 507%p, would see the company join the premier list-

The FTSE equity indices committee will meet today for its quarterly meeting at which the new constituents of the leading index will be named. The changes take of 15% translators Lambot 1999 At rights reserved.

effect on March 22. Telecoms group Energis is also expected to join the FTSE 100 rankings. National Grid reduced its holding in the group from just over 74 per cent to 49.5 per cent earlier this year.

ABN Amro reiterated its buy stance on Energis and reiterated its £17.50 share price target. However profittaking left the shares trailing 42': to £15.55.

National Grid recovered from recent lows to close S ahead at 436 p. Credit Lyonnais recently upgraded stock to "add" from "reduce". Supporters of Misys were

also confident the information technology group would return to the Footsie. Active buying helped the shares firm 8 to 645p.

The market leaders had

Hopes of a stay of execution for Tomkins faded and the shares gave up 3% to 206%p, in trade of 6m. The stock is expected to fall out of the FTSE 100, as is Williams, which hardened 4 to 364%p.

Tobacco company Gallaher might also be ejected from the premier listing. The shares fell 15% to 414%p. Dealers reported aggres-

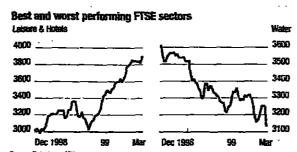
The rise of 101/2 to 140p took the shares well above Albemarle's 130p a share offer and reflected a statesive buying of mining group ment by Rhodia of France Billiton amid hopes that it that it was "reviewing its Official dealings in SAB will hold on to its place. The options" with its advisers

	NDEX		N C	16 1	16- 2	W	- Cob	
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■ London market data LIFFE Explity option Total Fises Total Falls



following Monday's recombeen seen as a favourite to buy. It said it has had nreliminary discussions with A&W. but has not so far put forward any offer proposals.

British American Tobacco shed 15 to 557/zp on heavy turnover of 12m shares after the group posted a decline in annual profits and warned would be unlikely to match last year's.

Martin Broughton, chairman, said the difficult trading conditions that had such a marked impact at the end of last year were persisting in the first quarter of 1999. BAT's profit fell 16 per cent to £738m though this was largely due to a £613m charge related to the US legal settlement on claims for smoking-related diseases. exceptionals was down only 3 per cent to \$1.55bn.

profit numbers, with one of Turnover reached 5.6m. the most bearish pencilling in £1.16bn for 1999.

WPP was the best pera rise of 21% to 548% p. WestLB Panmure has been

highlighting the value gap mended bid. Rhodia had between the stock and its main US competitors.

Barbour Index, the construction health and safety data supplier. lifted 7 to 3021 p on news of an acquisition battle for the company. United News & Media and Emap are both reported to be in talks with Barbour. Havas of France is also that the current quarter rumoured to be interested.

United, which was earlier Emap, which has an outside chance of joining the Footsie tomorrow, lifted 15 to £14.15.

# **Budget boosts Dixons**

Dixons Group moved strongly ahead after the chancellor of the exchequer unveiled new measures in Operating profit before the Budget to encourage computer use and informa-Analysts were trimming shares closed up 50 at £12.68.

The commitment in the Budget to increase spending by schools on IT saw RM former in the FTSE 100 with achieve a record high. It gained 46 to 625p. Water stocks fell heavily

after the chancellor raised competition in the sector. Thames fell 47 to 988p. United Utilities 33 to 784:-p and Severn Trent 37 to 882p. Director share-buying and well-received figures helped Independent Insurance jump

deputy managing director Philip Condon bought 38,000. The company announced a 22 per cent jump in underwriting profits.

London Forfaiting, the trade finance group whose share price was battered by a profit warning in January. recovered 13 to 641 p following speculation of a takeover at 120p a share.

Nycomed Amersham rose 14 to 474p after an upgrade by Morgan Stanley Dean Winter on well-received figures from the health care group on Monday. The US broker increased its target on the shares from 525p to 600p. raised its earnings per share forecast from 25.6p to 27.6p and reiterated its "strong buy".

Airports operator BAA fell as the Budget included an announcement that John downgraded by Goldman Prescott the deputy prime Sachs, dipped 115 to 6425 in. minister, would examine competition among UK air-PORIS.

The shares closed off 101: at eep, although one transport industry analyst said: "It is obviously a target Electrical goods retailer because it is mostly a monopoly provider, but to break it up would be very difficult and it is already heavily regulated.

News in the Budget that the government is to reduce tion technology literacy. The tax on football pools to 17.5 per cent from 25.5 per cent helped trigger interest in gaming and hotels commonly Ladhroke Group and Zetters Group, the football pools and bingo clubs operator. The former jumped 10% to 300% p with a big buyer said to have been active in the stock the prospect of increased early in the day, while the

latter added Dealers were expecting strong buying today in the drinks sector after the chancellor left duty on alcoholic drinks unchanged. Bass rose 131: to 900 ap, while Scottish 30% to 280p. Chief executive & Newcastle put on 11's to

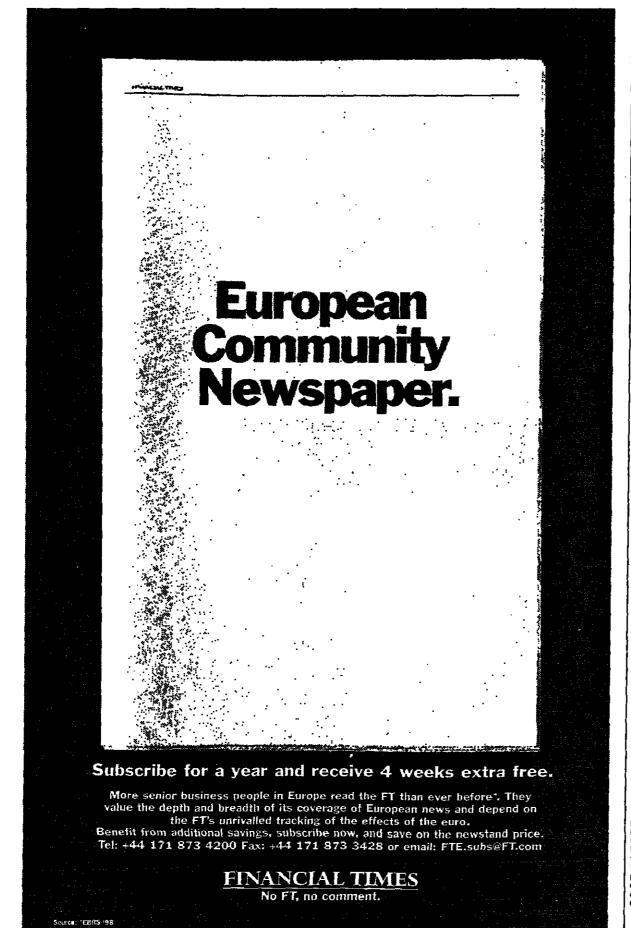
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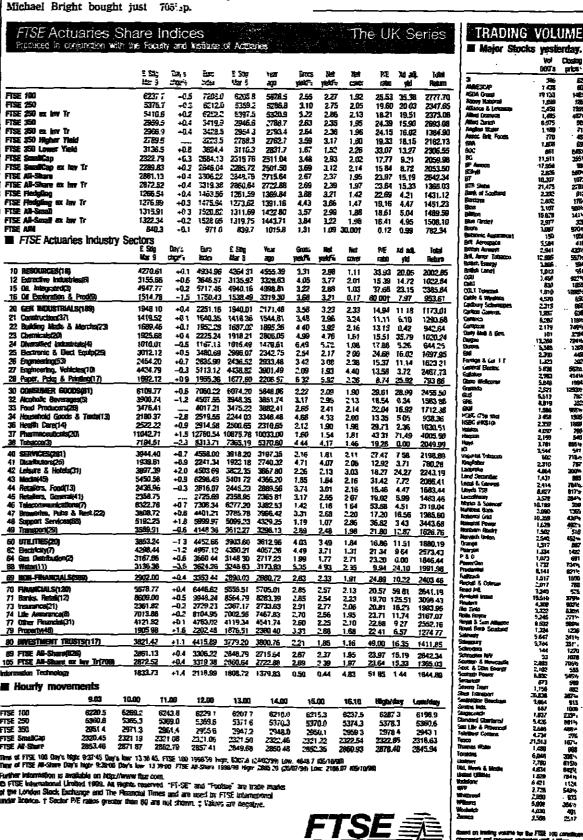
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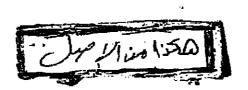
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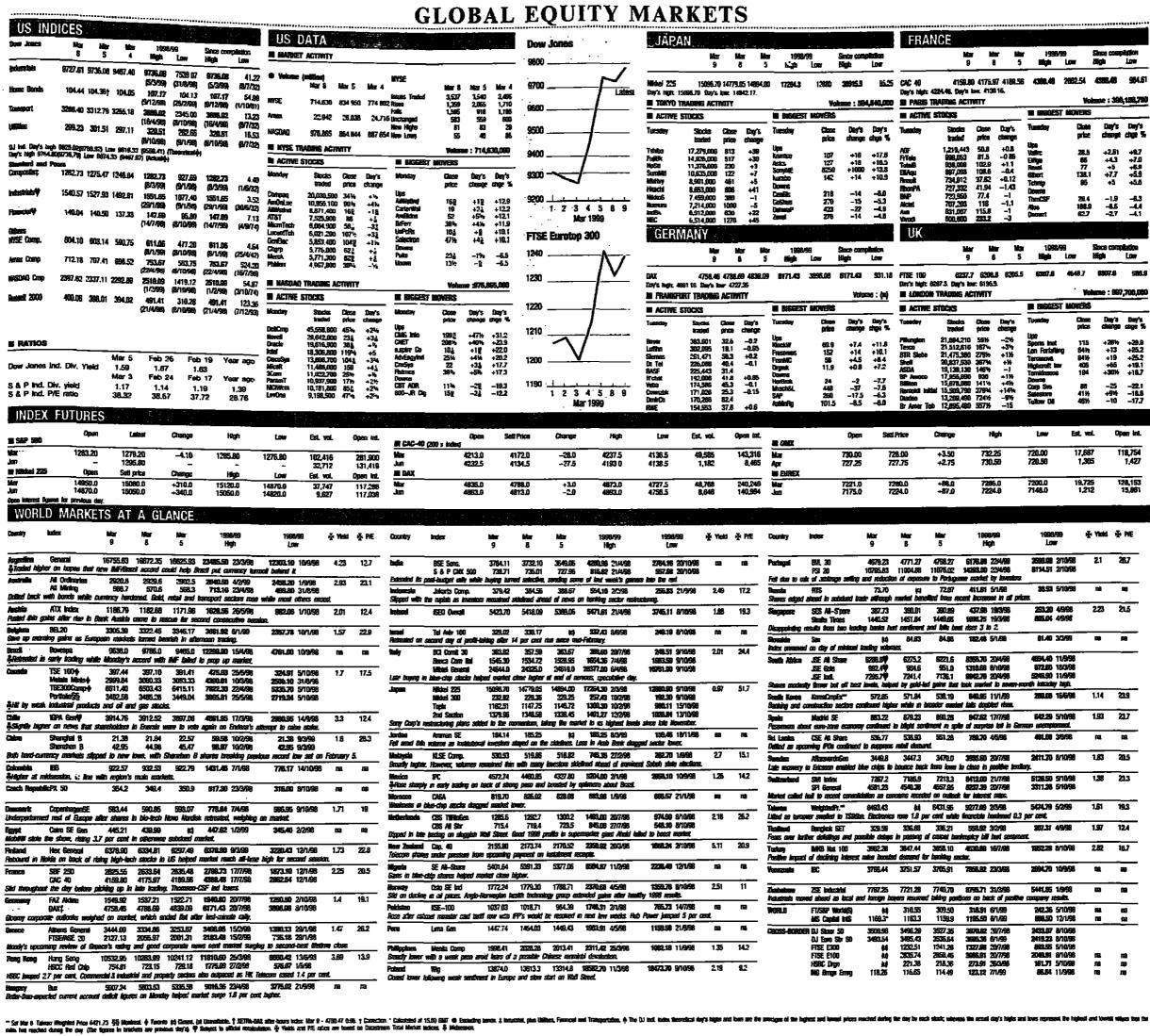
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# **STOCK MARKETS**

# Equities struggle after sell-off in bonds

**WORLD OVERVIEW** 

A renewed burst of selling in bond markets overshadowed trading in equities yesterday, reversing initial gains in Europe and sparking early profit-taking in the US. writes Jeffrey Brown.

A round of unexpectedly main focus for bond investors, notably the German unemployment figures for February, which tipped forecasts for the second month running.

Backed by another upbest French consumer confidence index, the data allowed germinating theories about an end to the downswing for euro-zone interest rates to put down even deeper roots.

The sell-off for bonds lifted solid European data was the 10-year German yields to 4.2 per cent, against the 3.6 per cent of late January. Much of the selling was said to be futures-related, but even so lower to confound analysts' it ruffled sentiment in equi-

than 20 per cent to \$271/2.

Shares of R.IR Nahisco

surged \$1% or more than 6.5

per cent to \$30% after the

sale of its international

tobacco business for \$8bn to

Japan Tobacco. The deal

helped send shares of Philip

Morris, a Dow member stock

and believed to be one of the

ing to "near-term accumu-

small-company shares was

changed in early trading

with sentiment held in check

by a weak start for energy

stocks and a profits warning

Alcan tumbled C\$1.40 to

C\$36.25 after the company

announced that its first-

quarter earnings would be

result, the 300 composite

index was up 4.27 at 6,507.70

weakness for international

oil prices, Imperial Oil lost

Telecom shed 90 cents at

Golds were a firm feature.

added 80 cents at C\$29.45 and

Placer Dome put on 75 cents

Banks were relatively sub-

dued. Bank of Montreal

eased 10 cents to C\$64.10 and

Canadian Imperial gave up a

SAO PAULO pared early

gains to send the Boyespa

day's accord with the Inter-

75 cents at C\$25.70.

C\$88.40.

Mexico City adds to

gains as peso rallies

adding to the gains of nearly 28 centavos to 13.70 pesos.

105.80 or 2.4 per cent at midsession. Although Mon-

There was strong buying national Monetary Fund

of blue chips as the peso ral- brightened the Real, which

lied in the foreign exchanges jumped 2 per cent against

and Wall Street reversed ini- the dollar, sentiment was

tial weakness. Telmex rose said by traders to have taken

75 centavos to 30.25 pesos an uncertain turn.

The Russell 2000 index of

TORONTO was little

late" from "neutral".

up 2.09 at 402.15.

\$1备 to \$40ట.

lower in volatile trading.

Frankfurt gave up 0.2 per cent and similar falls could be traced right across the main centres, with the benchmark CAC-40 index in Paris swinging between plus 50 points and minus 16.

Helsinki, buoyed by technology giant Nokia, which consistently accounts for 60 per cent of daily trading volume in Finnish equities, managed to notch up a further record high. But yester-

helped by a London market a landmark. on hold ahead of the UK Budget - did nothing to dispel the suspicion that investors are still no closer to finding fresh direction.

In a sense, the big share price event of the day was in Tokyo, where Sony surged almost 9 per cent after announcing radical restruct-17,000 jobs worldwide. In a market made moribund by

ties and most markets ended day's broad trend - not cision, the news was seen as Tokyo rallied 2.2 per cent.

a pattern that helped lift Hong Kong, which gained 2.6 per cent in spite of a resurgence of talk about a Chinese devaluation.

The renminbi wobbled and took a number of neighbouring currencles with it, notably the Filipino peso. The Manila share market came off 1.5 per cent.

In recent months, volatilpolitical and corporate inde- ity among emerging markets

index up 44.09 to 6.378.90.

Pohjola trimmed most of its

early gains on profit-taking

after jumping 8 per cent to a

record intra-day high of

€60.50. Shares in the insurer

MILAN closed higher with

a handful of blue chips push-

ing the market up and an

inflow of funds supporting

prices. The Mibtel index put

Fiat spurted 4.1 per cent to

€2.80 after comments from

honorary chairman Gianni

Agnelli that it was hard to

Chairman Paolo Fresco

also indicated the group had

not ruled out bidding for the

bus and truck divisions of

Sweden's Scania or pursuing

an interest in remaining

Tim pared some gains but

still closed 4.4 per cent

predict the group's future.

closed €1 higher to €57.

on 319 to 24.644.

Volvo divisions.

levels, keeping many inter-national fund managers firmly at bay. But Morgan Stanley Dean Witters claims to have picked up on an encouraging trend for the

sector. According to Robert

Pelosky of Morgan's emerging market team, volatility shows clear signs of peaking, which could bode well for broad emerging market equity returns over the next

higher at €6.39 on market

speculation over a possible

investors holding an extra 8

per cent of Telecom shares

in addition to the 12 per cent

it says are definitely against

HDP put on 5.3 per cent to

60 cents on a report that the group's RCS Editori publish-

ing business might be inter-

ested in buying the Telemon-

tecarlo TV network.

the main beneficiaries.

Written and edited by Michael

Morgan, Bertrand Benoit, Peter

Olivetti's bid.

Telecom-Tim merger

**EMERGING MARKET FOCUS** 

# Caracas suffers amid reforms

Venezuela's stock market, the world's best performing only three years ago, has all but disappeared from view.

Following a drop of 25 per cent for the year to date in dollar terms, transactions have come to a standstill. Daily volumes, once around \$15m-\$20m, have shrunk to an average \$1m and touched \$630,000 last week.

The list of investor concerns is long. The economic recession is deepening, the price of oil - the country's main source of income remains depressed, while the government struggles with a widening budget deficit caused by a collapse in oil revenue. To top it off, politi-Olivetti bucked the trend to close 3.1 per cent lower at cal uncertainty promises to €2.79 on news that British linger on the horizon for fund manager Standard Life had the probable support of much of the year.

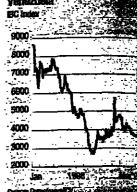
Emergency tax and budget reform measures would raise only 3 to 4 per cent of gross domestic product, according to BBO, a local brokerage. Even after the measures, "the budget deficit remains at 7 per cent and the government seems to have no idea of how to reduce it further," BBO says.

Many investors feel Hugo MADRID ended off intra-Chavez, who took office as day highs after depressed president in February, is European markets and a concerned more with his drop in January consumer radical political reform confidence ended early agenda than with the coun-The general index closed 4 try's economic challenges.

His plans for an assembly higher to 883.22, helped by news that the IMF had with powers to rewrite the constitution opens the way reached an agreement with Brazil securing future loans. for prolonged uncertainty. Companies with big Latin The assembly is to start this American exposure such as year and could last six to 12 Banco Santander, up 54

"As long as the political cents to €19 and Telefónica, up 32 cents to €41.92, were noise over this assembly does not subside and the Endesa advanced 0.9 per government does not present cent after Chilean pension coherent economic plan. there will be no major comfunds called a new sharemitments by investors," said holder vote in its subsidiary Enersis, which could allow Gabriel Osio, president of Economyest, a local broker-Endesa to get a majority age. "I think we'll see this stake in the company. The situation continue at least stock rose 21 cents to €23.89. for another six months."

> Meanwhile, the economic recession is deepening. The government last week admit-



grussels on targe

. win reform: of

agricultural policy

ted the economy would do well to contract by only 1 per cent of GDP. Private sector economists foresee negative growth of between 2 and 4 per cent of GDP.

Already hit by high interest rates, all but a few Venezuelan companies now face a dramatic collapse in consumer demand and struggle to pay loans taken out during the promising upswing of 1997 and early 1998.

The woes of paper manufacturer, Venepal, struggling to restructure its \$68m for eign debt, is indicative of corporate Venezuela. Bad loans now represent nearly 6 per cent of the banking sector's loan portfolio, up from 3 per cent a year ago.

The book value of many companies far exceeds their capitalisation, and some analysts believe they can spot value, despite the gloomy economic outlook.

Yet as Gonzalo Alonso, a trader with Activalores brokerage, says: "It doesn't make sense to talk about values. It's been some time since the market has responded to fundamentals." Mr Alonso's recommendation to clients is to "go for liquidity". That, he admits, leaves just half a dozen blue chips, such as the telecommunications \_ provider CANTV and the power utility Electricidad de Caracas.

Raymond Colitt

# Wall Street climbs after sluggish start

A series of new deals sent Wall Street climbing by midday, as the overall tone of trading picked up after a sluggish start, writes John Labate in New York.

The Dow Jones Industrial Average turned sharply higher shortly before noon, gaining 55.78 or 0.57 per cent at midday at 9,783.39.

IBM rose \$415 to \$184, but Walt Disney gave up \$% at \$35.3 after Goldman Sachs lowered its earnings per share estimates for the entertainment company's earnings for 1999 and 2000.

The broader market was higher as well. The Standard & Poor's 500 index climbed 8.91 to 1,291.64. The strongest performer was the Nasdaq composite index, weighted in high-tech shares, which was up 28.52 or 1.2 per cent to 2.426.14.

In the internet sector. Lycos surged more than 16 from metals leader Alcan per cent or \$14 to \$97% after Aluminium. a battle for control of the online search engine emerged. Lycos board member David Wetherell, who is also head of marketing firm lower than expected. As a CMGI, resigned and vowed to fight for new terms in the takeover of Lycos by USA at noon. Networks. The move sent Oils were also dull. shares of CMGI up \$17% or Responding to renewed

\$217% Other internet stocks were higher, including online bookseller Amazon.com, up 8 per cent to \$132 after a report that it had filed a suit against leading retailer Wal-Mart.

Online investing company E\*Trade surged 8 per cent or \$3# to \$50# after Volue Brown started coverage with

8 per cent built over the past

4.566.65 by midsession.

Other online traders were up as well, with Siebert similar figure at C\$37.

EUROPE

Shares in ZURICH put their recent consolidation behind them as receding worries about the outlook for interest rates and some technical factors sent the market 1.1 per cent higher. The SMI

index put on 81.3 to 7,267.2. Banks were at the centre of attention with UBS gaining SFr12 to SFr487 and CS Group SFr10 to SFr253. Analysts saw a price target of SFr290-SFr340 after the share broke out of its recent range. Baer jumped SFr101 to

SFr4,721 after the private

bidders for the RJR unit, up hank said it would launch another share buv-back Alaska Air fell \$4 to \$51% scheme at the end of March. Insurer Zurich Allied lost despite a raised rating by Gruntal to "buy" from SFr25 francs to SFr930 after announcing that pre-tax restructuring costs were American Home Products gained \$11 to \$621 after \$1bn higher than expected. Merrill Lynch raised its rat-

Roche certificates gave up early gains to close SFr70 lower at SFr18,370 ahead of 1998 results published after the market closed. Its 3 per cent rise in net profit proved in line with expectations.

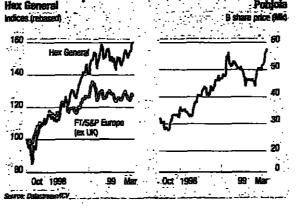
Ares Serono turned back from a high of SFr2,240 and closed SFr60 lower at SFr2.140 in spite of reporting 1998 profits at the upper end of expectations. Ciba slipped SFr1 to SFr109.50 after Monday's rise. ABB rose SFr67 to SFr1,841 after the stock broke through technical

resistance at SFr1,820. FRANKFURT ended a voiatile session with the Xetra Dax index off 0.96 at 4,790.47 after touching 4,869.47 in early trading.

A downbeat trading statement from Adidas, warning cent lower to 4.159.80. of flat sales in the US and In telecoms. Northern Europe, sent the sports shoe group down €5.05 at €79.95. HypoVereinsbank rose €1.15 for the second day running, at €52 after an upgrade from adding €3.10 to €78. Analysts Among leaders, Barrick sell to hold by BHF Bank.

results from Bayer and plans outlook in the US, where it for a 10 per cent share buyback, left the stock up 33 cents at €32.68. BASF ended 17 cents ahead at €31.32 in spite of company warnings

of 2.8 per cent. Ahold's results were disappointing to



Zurich rises as rate fears fade

the extent that they were all-time high for the second right on target. News of a day running, with the Hex \$1.75bn US takeover also unsettled sentiment sparking talk of a share issue to finance the deal. The stock lost 95 cents at €32.55.

Hoogovens dipped €27.20 before closing all square at €27.60 after an upgrade to neutral at Salomon Smith Barney which lifted its target price for the steel leader to €30.

Wolters Kluwer and Elsevier, which report tomorrow, moved in opposite directions. Kluwer added €1.55 at €176 but Elsevier shed 5 cents at €13.95.

Buhrmann slipped 65 cents to €16.25 on concern for the office goods group's 20 per cent stake in South African paper group, Sappi. PARIS slid throughout the

day before picking up strength in the afternoon while upbeat February consumer confidence figures provided little support. The CAC-40 ended 16.17 of 0.4

Most of the action came from volatile car part producer Valeo which surged said Valeo may be benefiting Better than expected from the good 1999 sectoral made an acquisition last year. Speculation about a European acquisition were also said to be circulating.

Thomson-CSF continued of a difficult year to come.

AMSTERDAM shed 3.25 at results published tomorrow. 522.27 on the AEX index The share lost €1.90 or 6.3 with retailer Ahold leading per cent to €28.40 while the way down with a decline Lagardère, which reports today, rose €1.50 to €35.50. HELSINKI reached an

# UNIVERSITA COMMERCIALE



University

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Applications are invited for the first edition of the European postgraduate programme in Fund Management. The degree will entail one semester at Bocconi University in Milan, one of the leading Italian institutions for economic education and research, and one semester at University College Dublin, Ireland. The postgraduate programme will enjoy full sponsorship by *UniCredito Italiano - Europlus Research and Management* and will offer the

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The academic courses will be supplemented by a two-month internship organized by EuroPlus Research and Management, Dublin, the asset management company of the UniCredito Italiano group and by a series of seminars and conferences held by leading experts and authorities on themes including: The Competitive Evolution of the Fund Management Industry - The ECB: Monetary Policy and its Impact on European Capital Markets - The European Commission and Capital Market Re-Regulation - New Trends in European Portfolio Diversification - Financial Crises: macroeconomic fundamentals and market response - Legal Aspects and Cases in Financial Contracts and Litigations - Issues in Organisation, Cross Cultural Management and Human Resources in Fund Management Firms - Investor Relations.

Applications are invited from high-performing individuals with a strong interest in fund management. Postgraduate qualifications and/or work experience are desirable, but not essential. A detailed CV, a statement of professional objectives, motivations for application (no more than 500 words) and two recent passport-size photographs should be sent, prior to April 12, 1999, to:

Università Bocconi Professor Franco Bruni - Istituto di Economia Via Sarfatti, 25 - 20136 Milano - Italy - Tel. 39-02.5836.5329 - Fax 39-02.5836.5314 For detailed information on course contents please visit our internet site at:

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A committee will select applicants for interviews by the end of April, 1999, in order to offer places to 15-20 students prior to the end of May 1999. Travelling expenses to attend interviews in Milan, course fees and support for travelling and accommodation in Dublin will be financed by the sponsor. On accepting admission candidates are required to pay a non-reimbursable fee of Euro 2,500.





# EuroPlus

# Tanzania

Friday March 26 For further information please contact: Mark Carwardine in London Tel: +44 171 873 4880 Fax: +44 171 873 3241 email: mark.carwardine@FT.com or Rohit Devani in Dar Es Salaam

Tel: +255 51 112927 Fax: +255 51 113181 email: pr@intafrica.com FINANCIAL TIMES

### Jo'burg hits 7-month highs MEXICO CITY pushed ahead and Televisa 3.40 pesos to strongly in early trading, 152.40. Retailer Cifra gained

**SOUTH AFRICA** 

The IPC index was up index down 138 to 9,648 at Johannesburg closed modestly higher, helped by goldled gains that pushed the broad market to its highest intraday levels for seven hit in August at the height in full-year earnings.

of the rand and global emerging markets crisis. Golds put on 27.8 at 992.4

after breaking above the 1,000-point level for the first time in three months. Industrials rose 54.3 to 7,295.7. De months. The overall index Beers tumbled 600 cents to closed 11.4 up at 6.286.6, off a R100 after it reported a high of 6,342.4, a level last sharper slide than expected

# Nikkei jumps back above 15,000

ASIA PACIFIC

Shares in TOKYO closed above 15,000 yesterday for the first time in more than three months, buoyed by a surge in high-techs and news of Sony's restructuring. writes Alexandra Nusbaum.

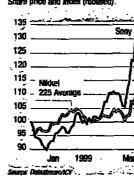
The Nikkei 225 Average gained 317.65 or 2.2 per cent to 15,096.70, its session high. The low was 14,842.17. The Nikkei 300 climbed 3.46 to 232.82 and the Topix index of all first-section issues jumped 14.76 to 1,162.51.

Momentum was positive with rising shares outpacing fallers by 646 to 522.

Sony, the electronics giant, soared 8.9 per cent or Y890 to Y10,940 on news of a restructuring that would cut 17,000 jobs over four years and transform three affiliates into wholly owned subsidiaries by January.

Stocks in Sony's three affiliates surged. Sony Music rates. Entertainment climbed to its maximum daily limit of Y1,000 to Y8,250. Sony Precision Technology was up Y300 to Y2,030 and Sony

Chemicals Y500 to Y5,250. The electric machinery with Hitachi up 5 per cent or



Y41 at Y808. Toshiba climbed 4.8 per cent or Y39 to Y813. NEC rose Y45 to Y1.270. The yield on Japan's 10-7.5 basis points to 1.7 per cent following comments by Masaru Hayami, governor of the Bank of Japan, that be expected a rise in interest

The interest rate sensitive real estate sector rose 2.6 per cent, with Mitsubishi Estate climbing Y49 or 4 per cent to Y1,239. Mitsui Fudosan was up Y19 or 2 per cent at Y976.

The banking sector closed sector climbed 3.1 per cent, up 1.2 per cent, with Fuji Bank gaining 5.8 per cent or

Y30 to close at Y517. Industrial Bank of Japan climbed 3.5 per cent or Y22 to Y630. in Osaka, the OSE rose 86 to 15.667.

HONG KONG got a boost from Microsoft's planned co-operation with Hongkong Telecom and the government's Cyberport project. The Hang Seng index closed 268.96 or 2.6 per cent higher at 10,582.95 in moderate turnover of HK\$5.6bn.

Speculative buying drove Telecom up to a high of HK\$14.90 before pulling back to close 20 cents easier on the view that while the co-operation agreement was welcome, it was unlikely to have much impact on earnings for some years.

MANILA moved lower, A wobble for the peso prompted a partial unwind-ing of the gains built up over the two previous sessions. Brokers said sentiment had been unsettled by the peso breaking back above 39 to the dollar. The composite index closed off 29.87 or 1.5 per cent at 1,998.41.

Financials were in the firing line. Ayala Land lost 50 centavos at 12 pesos and Metropolitan Bank retreated 5 pesos to 295 pesos.

per cent as investors took profits in a dozen small companies that could be delisted as part of a recent move by the stock exchange. Investors were also con-

BANGKOK tumbled 2.1

cerned about a batch of financial reform bills now passing through parliament. They feared the adoption of the bills, which are facing opposition in the senate, could be delayed until the end of the session on March 22, undermining the rebound of the Thai economy. The SET index closed 7.09

lower at 329,59. KUALA LUMPUR surged 2.1 per cent on index-buying by foreign funds and large trades by unidentified loca buyers that suggested the government was trying to boost sentiment artificially ahead of elections in the Bor-

neo state of Sabah.

The composite index gained 10.67 to 530.53. Conglomerate Renong and its partner UEM contributed to the upbeat mood by announcing a substantial debt restructuring plan, but the move hardly reflected on shares. Renong was down 0.5 cents to 80 cents and UEM unchanged at M\$2.19.